★ PROJECTING EARLY 1948 MARKET TRENDS ★

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and BUSINESS ANALYST

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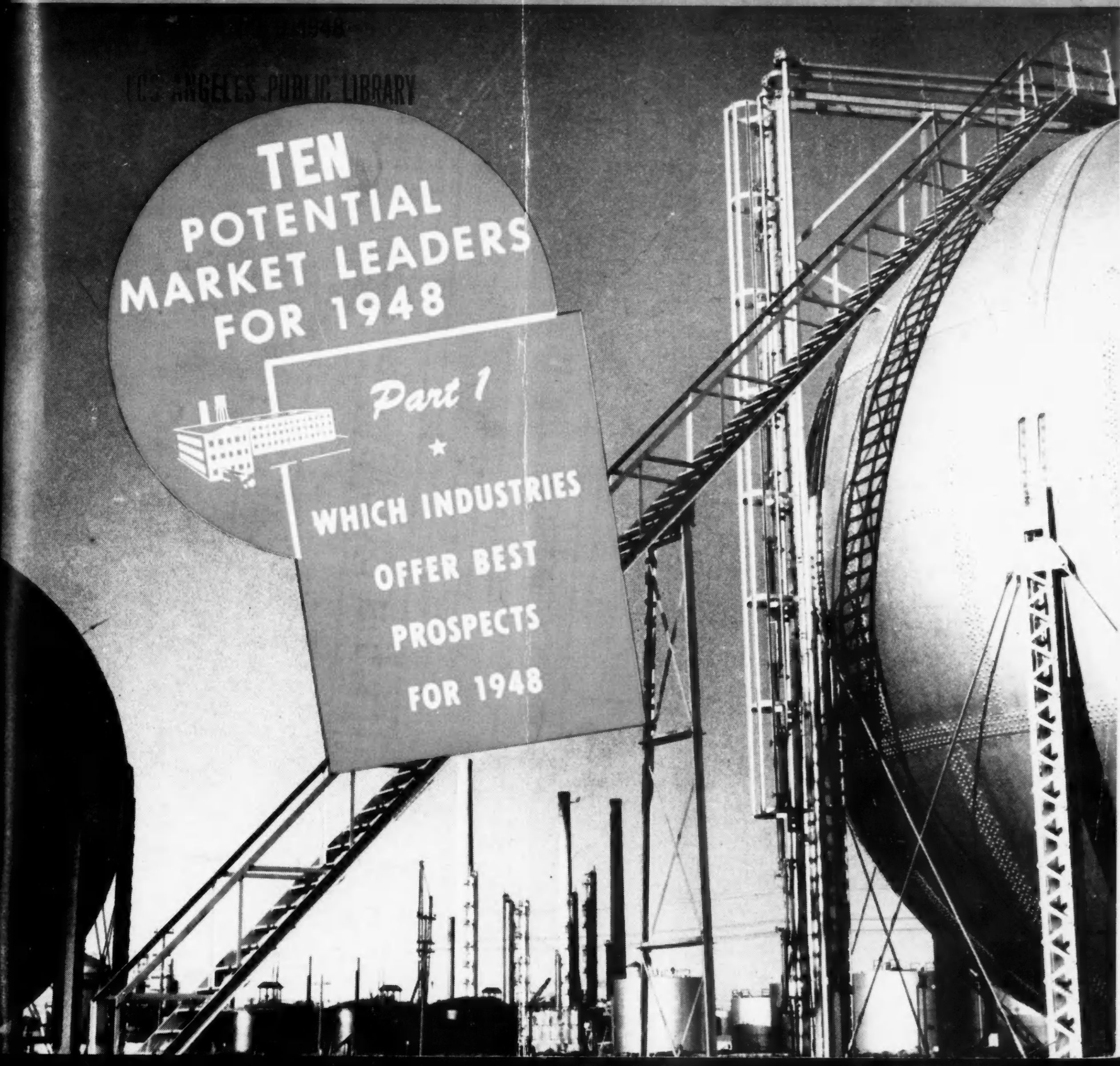

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THE MAGAZINE OF WALL STREET

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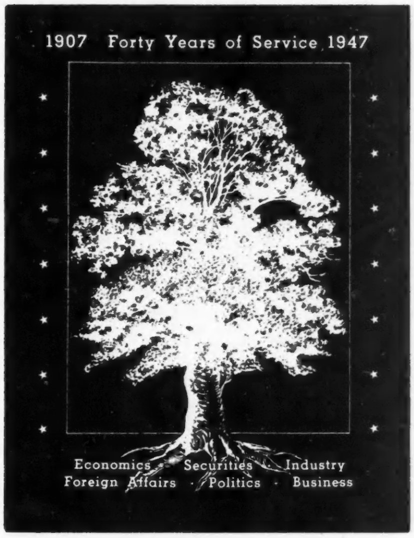


The Trend of Events

STATE OF THE UNION . . . If the nation and Congress were able to embrace the tenets embodied in President Truman's message on the "state of the Union," it would mean a complete turn to the Left, and a full-fledged New Deal. Until now, the President's position was generally thought to be just slightly "left of center," and pursuing a middle-of-the-road course. The latter now seems to have given way to a distinct leftward turn; the presidential tax proposals permit no other conclusion.

Even in democratic quarters, these have met with a cool reception. They are frankly labelled as too obviously a political move, and a rather inept one despite the patent bid for votes which might defect to Wallace. Their significance, however, goes beyond that. They are indicative of the unsound thinking on matters of fiscal policy and inflation that seems to prevail in certain official quarters.

The President has stated that he is thoroughly in favor of the free enterprise system, but his tax proposals would go a long way towards wrecking it. He insists that all citizens, regardless of individual income, should get the same amount of tax reduction—$40 apiece. To make up for the resultant loss of revenue, he proposes to saddle business with an additional $3.2 billion income tax levy.

The primary tenet of radicalism is to demolish the profit and loss system and wreck individual initiative. The President's tax ideas, if carried out, would do exactly that. Almost in the same breath he calls for higher corporate income taxes and speaks of industry's need to spend over $50 billion on expansion of productive facilities over the next few years. Such a rate of increase would approximate the heavy industrial expansion of the postwar years. Assuming it is justified from the standpoint of prospective demand, the President's program not only does nothing to encourage such expansion but strongly tends to curtail it, or make it altogether impossible.

America's stability, or rather the prospect of achieving economic stability, today depends on the ability of business to obtain sufficient working capital to finance their large operations. Far too much of recent expansion has been financed out of industry's own liquid assets, or by increasing debt. What is really needed is a tax policy that will definitely encourage capital to go into industry. The presidential approach seemingly ignores the fact that a policy of curtailing business earnings may damage the entire credit structure, delay the revival of equity financing and seriously jeopardize the use of earnings for expansion purposes. It would, particularly, stunt the opportunities of small companies, for whom risk capital is generally unavailable. They can be built up only be retained earnings.

The basic assumption behind the President's proposal apparently is that high taxes in themselves combat inflation, so that a reduction of one type of levy (on individuals) should be offset by an increase in some other tax (on business). And since political pressure centers upon a reduction of personal income taxes, it is proposed that corporate taxes be raised to hold total tax revenues at existing levels. Actually, cutting income taxes on low incomes is nothing if not inflationary without any correction in those taxes which promise at least longer range deflationary results by encouraging higher production through plant expansion. And plant investment, definitely, is

not encouraged by additional corporate taxation. Thus the tax plan is in direct conflict with the plea for plant expansion. It will have hard sledding in Congress.

One must of course make allowances for the fact that the President's message is the opening gun in his battle for re-election, and an effort to seek support from voters left-of-center. Specifically it is an attempt to solidify labor support; hence his advocacy of a higher "federal" floor under wage rates. The farmers are by no means forgotten. For their benefit he calls for continued and improved farm price supports—at a time when farm prices are going through the roof—and for extended crop insurance.

Withal, the President's mesage was a political message first and foremost and must be viewed as such. It had little to do with the "state of the nation," but the latter must be impressed with the exent to which the President has gone in appealing to the radical fringe of the electorate.

EUROPEAN RECOVERY PROGRAM . . . In his plea for full appropriation of the $6.8 billion proposed for the first fifteen months of the European Recovery Program, Secretary of State Marshall was on firm ground when he stated that barring such action, we risk disastrous failure. The danger confronting ERP in Congress is not that it may be killed; we have committed ourselves too firmly for anything of the sort to happen. The great danger is that it will be so crippled as to be worse than useless. Hence Mr. Marshall's view that it would be better to abandon the project than to launch it under conditions that would virtually assure failure.

Mr. Marshall's stand has been criticized as uncompromising. It would be more correct to say that it takes fully into consideration the hard facts of international life today. For having stated his case with candor, he deserves the country's gratitude.

The great burden of Europe's reconstruction, the Secretary declared, must fall upon the U.S. because only the U.S. can carry it. And we must carry it because world disorder threatens our own safety. We are not embarking on an undertaking of such magnitude and significance for light or purely sentimental reasons. Decisions of this importance are dictated by the highest considerations of national interest.

Considering the congressional approach to the matter, one cannot gainsay the possibility that the funds for the ERP could be whittled down to a point where they become just another contribution to stopgap aid—meaning merely postponement of the collapse which will come unless western Europe is provided with the basis for a new start. In our own interest, we cannot afford to let this happen. Nor can we allow the program to be hopelessly handicapped by poor administration, or by attachment of too many conditions of the wrong sort.

The strength of the foreign aid program is its moral justification; it means hope for Europe and hope for a better way of life among the nations, hope for ultimate peace. Its failure would be our failure.

HIGHER REDISCOUNT RATE . . . The Federal Reserve Board last week used what it expects will be chiefly a psychological weapon but nevertheless hopes to be somewhat of a deterrent to further inflationary bank lending. It approved a rise in the rediscount rate from 1% to 1¼%, marking the first change since August 1937.

The rediscount rate is the interest rate which Federal Reserve member banks pay on loans from the Reserve Banks. Boosting it tends to discourage that kind of borrowing and thus reduces the amount of funds the banks have for lending. This is the classical concept and it has worked fairly well in the past, but it is unlikely under today's conditions that it will greatly restrict the supply of credit.

The step, however, will have a number of effects. It will probably be followed by a further rise in interest rates charged by commercial banks for business loans, thus will further accentuate a trend under way for the past year. Some additional selling of Government bonds by banks may also occur, especially by banks at present "loaned up" and facing heavy withdrawals for tax payments. Rather than borrow and pay the new and higher rate, they might prefer to sell more of their Government bonds to obtain additional reserves.

Beyond that, no immediate repercussions are likely. The step is one of several recently undertaken that are chiefly of a psychological nature. Bankers argue to be really effective in curtailing inflationary credit expansion, these measures must be supplemented by the sale of Government securities by the Federal Reserve System. The latter recently has been doing just the opposite; it has been buying them in huge amounts to support their market levels at par and maintain a 2½% rate on long term Government bonds. The effect of this action, basically, was highly inflationary, since it put money into the hands of the banks, thus gave them more funds for loans.

What the new move amounts to is no more than a warning, added to the recent drop in the bond support levels, that the monetary authorities are increasingly concerned about credit expansion. Actual credit control is still mainly at the discretion of the banks which, it must be noted, seem increasingly inclined to put on the brakes.

LOST PRODUCTION . . . Much is said and written about the need of stepping up production, the fact that only higher production can effectively combat inflation by bringing about better balance between the supply of goods and the supply of money.

In the course of last year, industrial output has increased a good deal as witness the production peaks achieved in a good many industries. Still results might have been better, had it not been for sizeable production losses through strikes. According to the Bureau of Labor Statistics, fully 35 million man-days of work, the third highest total on record, were lost in work stoppages in 1947. While this was small compared with the peak of 116 million man-days lost in 1946, it was just under the next highest total of 38 million man-days lost in 1945.

While 1947 was an improvement, in postwar experience, it was still way above prewar. Strike losses, whether in terms of lost income or lost production, are always deplorable but particularly so in our present inflationary environment where the loss of pay is doubly painful for the worker, the loss of ouput severely missed by the economy. Let's hope that 1948 will bring further improvement.

As I See It!

By CHARLES BENEDICT

GOVERNMENT BY BUREAUCRACY?

One does not have to be a prophet to realize that 1948 will decide the issue of government for the United States. Whether we eventually go totalitarian or stay on free enterprise will depend on how we succeed in curbing mistaken self-interest and the use of political expedients in an election year.

Away from the turmoil of disrupted continents—and sitting on the side lines, observers of the various experiments in government abroad, we have learned that the many ramifications of modern economics do not lend themselves to centralization under bureaucratic control. On the contrary, the state of the world with its need for accelerated production, a condition that will exist for years to come, calls for the initiative and resourcefulness of individual effort — of separately integrated entities — which is possible only under the system of free enterprise.

The intense mechanization of industry — the speed of transportation and communication — has so intensified human activity that profitable operation, whether it be manufacture of products, distribution or financing, calls for responsibility which cannot function efficiently under the red tape of bureaucratic control.

"ANOTHER DAVID, WE HOPE"

Apologies to Marcus in the New York Times

There is a vast difference between the corporations under private management where the responsibilities for production, for markting, for profitable operation is divided among various executives whose income and prospects depend upon the profitable operation of the company. The opposite is true of any government-operated enterprise, where the responsibility is constantly passed along to the man higher up on the various levels, a deadening and delaying process under the best conditions, and where failure flourishes frequently for the psychological reason that deficits can always be met by new taxation.

Possessing the advantage of a political set-up which divides the country and its economy into a number of individual units locally controlled, we should firmly and combatively resist the pressure for any further bureaucratic domination. Instead, we should work for less bureaucratic control and substitute the practical basis of free enterprise wherever we can and eliminate the handicap of political bureaucratic expediency. In this way only can government remain the servant of the people, for otherwise the people become the servant — if not, indeed, the slave to a civil service.

Government should not be our master. We should force it to revert to its natural and primary function—that of umpire seeking to strike a balance between conflicting interests and forces, if we are to insure stability of progress economically and socially.

The trouble in this world today arises from the gangster methods employed by power-hungry politicians who seek unfairly to dominate the lives of men for their own purposes. The ethical standards which have been the back-bone of progress for the world — have been thrown into the discard and the example set has produced deterioration of principle in every walk of life, bringing dangerous political and social instability. We cannot shrug off this situation any longer for it has serious implications. In fact, such decadence beginning in high quarters has always been responsible for the decline in a nation's fortunes.

It is clear to any thinking individual that we are facing a crisis of the first magnitude, calling for strong leadership with the courage to set things right. Democratic and Republican leaders should face the situation without hypocrisy and self-seeking, nor should they permit the mistaken ideas of special interests frequently colored by greed, to affect their legislative judgment. Neither should they cater to the demagogues and wild demands coming from all quarters that will be harmful to the country's interests. There is too much at stake today!

And let them remember, too, that the great leaders who saved the country in the past were always in the minority—courageous and *(Please turn to page 442)*

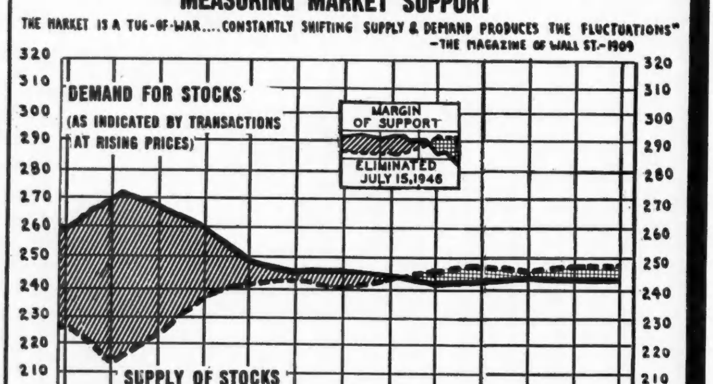
Projecting Early 1948 Market Trends

By A. T. MILLER

WE BELIEVE: A test of the bear-market lows of last May is likely some time in 1948. The chances for an important market rise meanwhile do not look convincing, on the basis of recent and current evidence. Hence, the question when the test will come is not a decisive consideration. Reserves should not be less than about 50% in average investment accounts.

It would be too much to say that the manner in which the market has acted in recent weeks implies a bearish trend for 1948, or most of it; for the performance has been poor to date in a negative, rather than positive, way, and how prophetic it may be remains to be seen. But so far as it goes, it certainly offers no challenge to the validity of the cautious and highly selective investment policy which these articles have been recommending for some time. If anything, it makes the previously dubious case for a sustained recovery in stock prices, or a new bull market, somewhat more dubious.

Through January 10 the maximum rally from the December 6 low in the Dow-Jones industrial average, on the basis of closing prices, was only 3%. Unless this is bettered materially by the time you read these words, it will go into the record as one of the feeblest year-end rallies in the entire 51-year history of the industrial average. Regardless of what the reasons may be, the divergence from normal seasonal tendency is not encouraging.



The December 6 closing low in this average was 175.74. By December 20 it had risen to 181.06. December 31 found it at 181.16; January 10 at 180.20. In other words, practically all of the rise up to this writing had been scored within the 14-day period December 6-20, while for the period from December 20 to January 10, within which the upward seasonal bias has virtually always been strongest, the industrial average, and the great majority of individual industrial stocks, got nowhere. Despite this, there is still some possibility of better action by industrials, but if it is to develop in the second half of January and run for even a few weeks, it must rest on some new stimulus or shift in sentiment—the basis for which is not clear—for the purely year-end seasonal influence will have been eliminated.

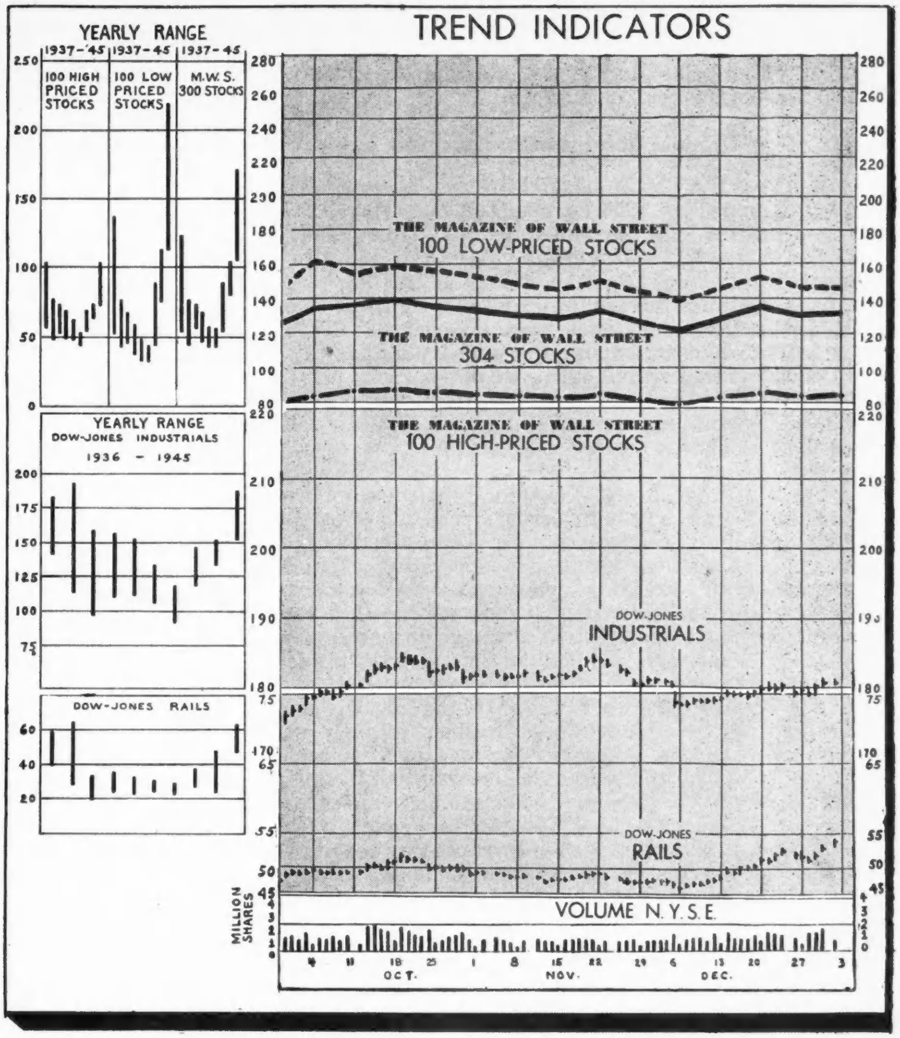
Significance Of Strength In Rails

Analysts who think the medium-term prospect is bullish make much of the strength in rails; and of the fact that securities influenced by money- market considerations have stabilized, and in many instances rallied considerably, within the last fortnight on the belief that the new Federal Reserve support level of 100¼ for long-term Government bonds will probably be firmly held. This view might be right; but if so, it should begin to prove out pretty quickly; for, as we see it, at this point time is not with the bulls.

The pegged level for Government bonds automatically puts a floor under high-grade corporate bonds and thus alleviates—perhaps entirely eliminates, for the foreseeable future—the pressures and interest-rate uncertainty which for some time had unsettled the bond market, preferred stocks and, to some extent, equities with a money-market flavor such as operating utilities, bank stocks and a few other stable-dividend issues. This is important at least in a negative sense, in that it removes one of the influences which has weighed on the stock market; but it can hardly of itself assure a stock market rise. (The basic implications of Federal monetary-credit policy will be discussed further along in this analysis.)

As for rail stocks, market action to date has been definitely encouraging. As of January 2, the Dow rail average

had bettered its previous recovery high, made as far back as last February, whereas the industrial average is still significantly under its rally tops of both last October and last July. Rails have held well on all minor recessions to date, since their December reaction-low was recorded. On the other hand, this average has so far surpassed its previous high by only a fraction, and has had to labor under considerable profit-taking for the last week or more. Hence, it is an open question whether further important rise is ahead. The rate relief already granted by the ICC is enough to assure good earnings — well above 1947 figures — as long as rail traffic holds anywhere near the present high level. Because the rails have so much in their favor, at least for a substantial intermediate period. we are unable to see any reason, technical or otherwise, why their rise should not be extended fairly promptly, if it is going to be. In short, if they do not meet really aggressive buying during, say the second half of January, the basis for expecting it later would be tenuous. Good earnings, as we have seen in the case of any number of industrial stocks, do not necessarily guarantee a wide market rise under existing investment psychology of doubt as to how long such earnings will last.



Most Stocks Notably Sluggish

Without strength in rails, there would be little in the current, and recent, market performance for bullish commentators to talk about. The question is whether rails can lead the industrial list upward, or whether continuing sluggishness in the latter will wear down speculative confidence in rails. It cannot be answered with much assurance at this writing, but we think a healthy skepticism is justified. In terms of business activity, earnings and dividends, the industrial list—making up the great bulk of the market in investment interest and total values involved—has had a highly bullish general environment for many weeks .During this period there were no new international or domestic-political disturbances of real market significance; and over the last month or so there has been the additional encouragement provided by the strongest rail market since the bull trend collapsed in 1946. Despite all this, industrials, with few individual exceptions, have got nowhere to speak of. One is justified in wondering what it might take to bring them to life on the upside. Is strength in rails, which may or may not be transient, a good enough reason for investors to buy auto stocks, or steels, or coppers or others among the dozens of industrial stock groups? It has not been so up to now.

For 1947 as a whole the Dow industrial average gained 2.2%, and throughout the second half of the year it held within a trading range of about 11 points or roughly 6%. The mere absence of significant decline has encouraged some investors and some professional analysts. It is figured that if the old range is broken on the upside, it would probably be by a margin of perhaps 10 to 20 points in view of the long period of hesitation, and some would construe it as a bull market. In the first place, it is a big "if" on present indications. In the second place, assuming a penetration of the July high (185.82, closing basis) it could well be by a small margin, for it is our impression that many potential sellers have long been waiting and praying for "one more good push" on which to do more selling.

Moreover, the Dow average, as we have repeatedly pointed out, cannot paint the real market picture, since it embraces only 30 of the more prominent industrials. What actually happened to the broad structure of the market in 1947? Our composite weekly

indexes show it very clearly. Against the rise of 2.2% for the Dow industrials, December 31 found our index of 304 stocks off 5.3% for the year, the index of 100 high-price stocks off 3.0% and the index of 100 low-price stocks off 13.7%.

Gradual Deterioration Indicated

Whereas the Dow industrial average at no time in 1947 extended its 1946 bear-market low, May, 1947, found the 1946 lows extended by 14.1% in our index of 304 stocks, 9.8% for the index of 100 high-price stocks and 20.5% for the index of 100 low-price stocks. Nothing marginal about that. At the end of 1947 the Dow industrials were priced at 85.2% of their 1946 bull-market high, a slightly higher ratio than a year earlier; but our broad index was at 68.5% of its bull-market high against 72.3% a year earlier; the high-price index at 74.7% against 77.3% a year earlier; and the low-price index at 59.1%, compared with 65.7% at the end of 1946.

These are not dynamic changes, but they unquestionably reflect a gradual erosion of values in the rank-and-file of common stocks — and, on balance, sales by large investors and insiders to the public and mainly the odd-lot buying public — **during a year in which production broke all former peacetime records, corporate earnings reached an unprecedented total of some $17.5 billion and dividends trended strongly upward.**

The implication we get out of this is that the continuation of the present level of business activity and earnings even for a matter of some months could not be safely taken as enough to assure significantly higher stock prices on any broad and accurate measure, and that it would not necessarily preclude a further slow erosion of prices, interrupted by recurrent rallies, in anticipation of the eventual slump in business and earnings. What will the market do when that slump — it is now too late in the inflationary cycle to call it a "recession" — begins?

Some argue that the long expected readjustment is allowed for in present conservative price-earnings ratios. We doubt it. Certainly that can be no more than a half-truth. In every instance where earnings have already taken a beating—for example, in motion picture stocks, air lines, many retailing issues—the stocks have declined greatly, regardless of previous seemingly "conservative" price-earnings ratios in most of these cases.

Duration Of The Boom

We have no conviction as to just when the inflationary boom will blow itself out. Looking at declining unit volume in retailing, at gradually shrinking exports, at prospective smaller plant outlays, at inventory factors and at tightening credit conditions, a plausible case could be made out for a shift to the deflationary side within three to six months. But, weighing apparent total demands and the unprecedented money supply, one cannot rule out the possibility of high activity through the year and into 1949. Putting economic analysis entirely aside, however, three things give us pause. First, the majority of economists, government forecasters and business men are bullish on 1948 busines prospects, whereas a year ago they were cautious to bearish — and wrong. Second, regardless of what month the boom tops out, the mere passage of another year has brought us that much closer to the top. Third, judging by market action for some months, it does not seem to make much difference whether the boom ends three months hence or nine months hence, so far as potentiality for sustained market rise is concerned, but it does make a difference with respect to potentiality for market decline; for stocks which do not rise significantly on the kind of earnings now prevailing will probably go down, perhaps importantly, when the earnings turn sour, if not a few months in advance.

We do not know whether the eventual business correction will be gradual and moderate, or sharp and fast. The human tendency is to expect the former, because it is least painful. Right or wrong, no harm will be done if investors conservatively allow for the latter. Besides, it is the more probable if the whole past history of inflations means anything. The greater the distortions—they are already great and will be made more so by the third round of wage increases now coming up—the less likely is it that they can be adjusted slowly and painlessly. Indeed, the plain truth is that we can get to a basis of price stability, increasing man-hour output and sound prosperity only through a real purge. The longer it is deferred, the worse it is likely to be. No doubt this is one of the conceptions which has been weighing on the stock market.

Since break-even points throughout business are generally much higher than they were before the war, you have to keep in mind that it will not take a major decline in sales or prices to reduce earnings sharply. A moderate decline in volume and prices would suffice to do it—probably with a severity surprising to a good many investors. Bearing on this point, a representative index of quarterly industrial-company earnings plummeted over 70% between the third and fourth quarters of 1937 on a decline of 18% in the Federal Reserve Board production index and of less than 5% in the index of wholesale commodity prices —yet at that time we had nowhere near the present degree of inflation in anything, including break-even points.

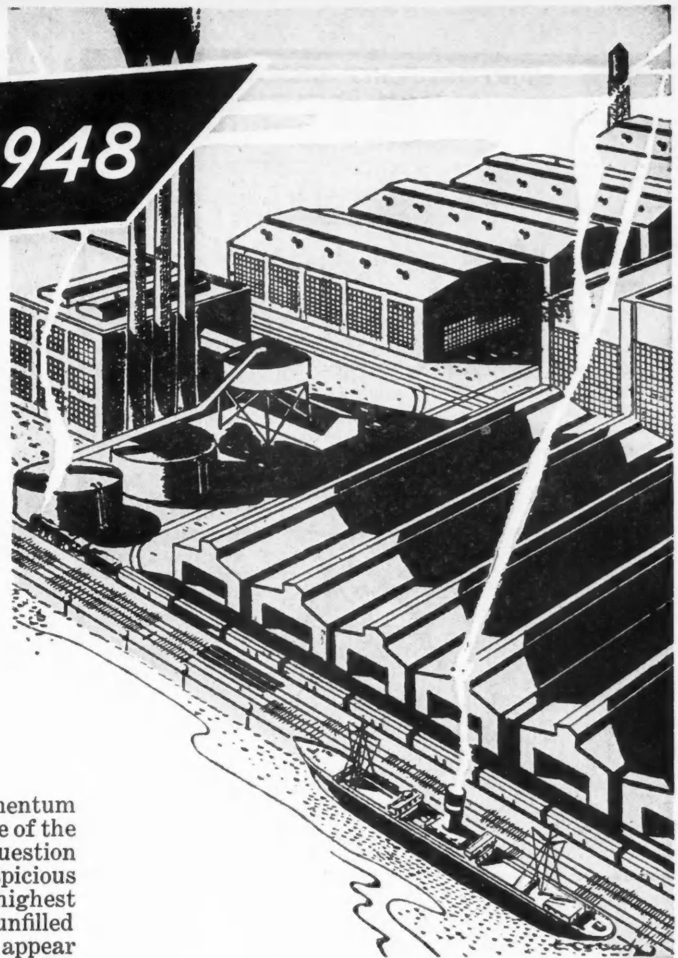
Federal Monetary-Credit Policy

The monetary authorities wish to brake, but not break, the boom. Hence, their credit-tightening steps are gradual and small, measured against earlier standards. Moreover, drastic deflationary action, via higher interest rates, is precluded anyway by their desire to keep the 2½% basis for long-term Government bonds. To unpeg this market would in time greatly raise the annual interest cost on the Federal debt. In the view of the Administration, it would also break faith with the great numbers of investors who bought these bonds at par. It is improbable that a Republican Administration, if elected next November, would take a different view. Therefore, Government bonds are likely to be held indefinitely just above par unless that should require a volume of open market buying of them too hugely inflationary in expanding the bank credit potential to be tenable. We see no reason to think that this is probable.

At best, the new capital financing of 1948 will exceed the year's increment in investible savings funds by only a few billions of dollars, involving sale of Government bonds by institutions in a volume readily subject to absorption by the Federal Reserve. So far as concerns investment switching out of Governments into higher-yield corporate issues, the process could go very far without (*Continued on page* 442)

Preview of 1948

ECONOMIC And BUSINESS Trends



By E. A. KRAUSS

In appraising the outlook for 1948, the momentum under which business is currently moving is one of the most important factors to consider. Without question we have entered the New Year under most auspicious circumstances. Overall production is at its highest for any peacetime year. The carry-over of unfilled orders into 1948 is huge, and most industries appear to face an accumulated demand large enough to keep them humming for a considerable period ahead. Many lines in fact are constantly establishing new peacetime records.

Expressed in broad economic terms, our gross national product is now running at a rate of about $250 billion a year compared with an estimated $230 billion for 1947. Personal incomes are close to $200 billion annually and consumer spending last year was in the neighborhood of $164 billion. Industrial output is close to double the prewar level and agricultural production more than one-third larger than prewar. Full employment is in evidence everywhere.

Expansive Forces Underrated

Though rising prices magnify the picture, it shows that the expansive forces generated but repressed by the war were more powerful that generally believed. Neither the business recession that was feared early last year, nor the price stabilization that was hoped for has materialized. The evident fact is that the flow of goods, even with our industrial machine working at capacity, was not sufficient to meet all demands and the result was that economic imbalance continued and prices kept soaring.

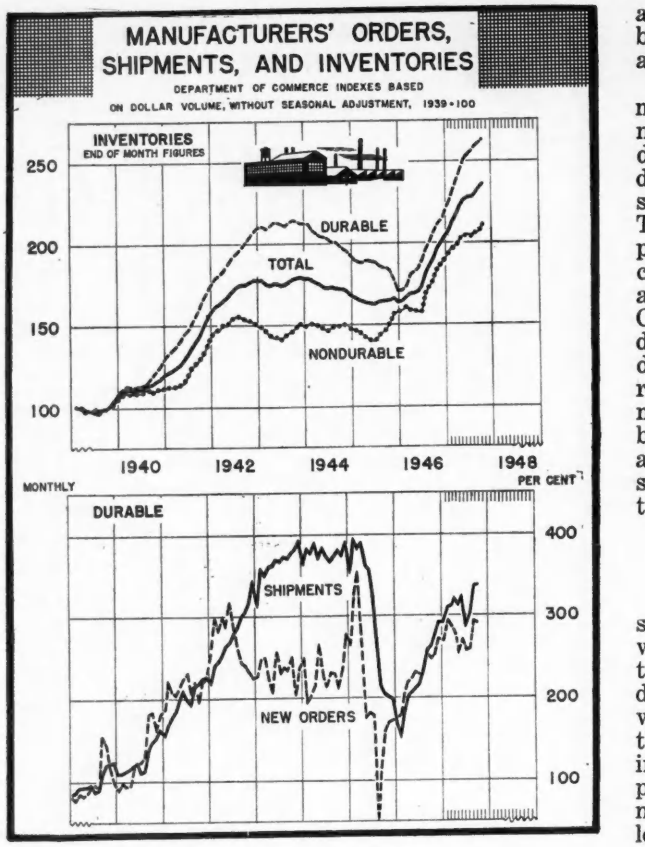
Quite obviously, the demands of business for new plants, equipment and inventories, of individuals for housing and all types of consumer goods and services, of Government and of foreign nations, in their aggregate were considerably greater than the supply. And with ample purchasing power available to make this demand effective, prices were bid higher and higher.

The danger of price inflation has been frequently pointed out. High prices in themselves are not dangerous—if income keeps pace. But rising prices tend to distort income distribution and ultimately there comes a time when those with adequate incomes have satisfied most of their demands while those who need and want goods have been priced out of the market. If this occurs, it speels economic trouble, and we seem to be much nearer to it today than a year ago.

It is against the overall background described in the foregoing, that we must view the prospects for 1948. The main task will be to bring the economy into better balance, and this will not be simple.

The root cause of inflation is found in an excess of the money supply over the available supply of goods. To cure inflation, production must be brought in balance with effective demand, which means that output must be increased or the supply of purchasing power reduced, or both. Efforts are being made in both directions but the results cannot be expected to come quickly.

With the economy producing virtually at its present capacity, it will be a tremendous task to increase output still more. While our plant is expanding and productivity is rising, both processes are at best slow. To the extent that they can aid in boosting production, however, they will be of distinct help. Another approach is the reduction of demand, volun-



tary or otherwise. Official exhortation to restrain spending has been frequent but of little practical effect. To get results requires more forceful measures and such are now advocated particularly in the field of credit.

In almost every sector of the economy, the underpinning of the boom continues to show strength and nothing suggests the likelihood of serious trouble in the months ahead. If, ultimately, a downturn does come, it should be remembered that it will start from a high level. And the great momentum of current business will keep it running at a goodly pace long after weaknesses have begun to appear.

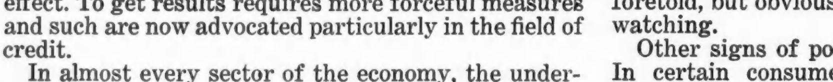
These may be slow in developing. For the moment, signs of strength are abundant. Employment and incomes are high, and overall consumer demand show few signs of abating. The boom in durable goods, particularly, continues exceptionally strong, and even non-durables are doing quite well. The steel and automobile industries face what appears an insatiable demand and should operate at capacity for an indefinite period. Construction activity in 1948 promises to set a new record. Cotton mills are well booked and the rayon industry requires further expansion to take care of demand. Food prices are firm or rising. The railroads urgently need new equipment, and farmers need much new machinery and have the means to buy it. On top of all this is the large demand from abroad and the strong likelihood that the export surplus, while smaller than last year, will continue very large compared with normal.

No Early Change Indicated

It is difficult to conceive that a state of activity so strongly supported by demand for capital goods will change much in the near future. The momentum is such that even if demand should begin to drop, the effects on production and employment would lag by a considerable time. The danger in the current situation is that rising prices are individual and business financial resources to the point where increases in private debt are becoming more and more essential to maintenance of present levels of business activity and employment. The exact time when prospective borrowers will no longer feel able to ask for additional funds, or lenders be able and willing to advance such funds, cannot be foretold, but obviously this is a matter that will bear watching.

Other signs of potential weaknesses can be cited. In certain consumer goods fields, businesses are catching up with their demand backlogs. Retail trade in terms of physical volume seems on the decline, reflecting the consumer pinch between high prices and high living costs. Inventory accumulation is flattening out and so is business spending but any slack in the latter may well be offset, for a time at least, by the construction boom. A sharp drop in business investment, should it develop, would be a serious matter, however, for it would mean the weakening of one of the major props of the boom. This situation, too, bears watching.

In the long run, credit policies may well determine the length of the boom. Should money tighten measurably at a time when industry's cash resources are strained or shrinking, the restrictive effect on capital investment will be obvious. Potentially this would be more dangerous than consumer resistance in the re-



(*Continued on page* 440)

Balance Sheet of Factors At Work

UNFAVORABLE FACTORS

INFLATION—Rising prices and the soaring cost of living must sooner or later check some demand, both in the field of consumer and business spending. Just when, and to what extent, is however, difficult to say. It is perhaps one of the greatest uncertainties in the outlook.

LABOR STRIFE—Flaring up of labor trouble coincident with demands for a "third round" of wage increases is a possibility, if not a probability. Granting of higher wages will mean another wage-price spiral, adding fuel to the inflationary fires. Refusal may cause disruption of productive activities with consequences that are difficult to foresee.

POLITICAL UNCERTAINTIES—This is a Presidential election year and something no doubt may be felt of the influence of political factors that might prove upsetting to business. There are several ways in which its course might be affected by governmental action, depending on moves in Congress as well as by the Administration.

GOVERNMENT CONTROLS—The recent battle over the anti-inflation law may by no means be the final word and it remains to be seen whether more incisive measures will be demanded or needed. Reinstitution or extension of controls is at least a possibility, since the voluntary controls currently in process of implementation may prove inadequate or unworkable. Revival of the control question is bound to make for business uncertainty.

FOREIGN POLICY—In the field of foreign policy, decisions may be made, or have to be made, which may have all-embracing effects on business. Developments abroad, too, may prove disturbing. Every indication points to decisive developments in the world political arena.

DEFLATIONARY FACTORS—One of them is the braking action applied to the boom by the curbing of business credit. This action so far is mild and hardly effective but it could become so, if more stringently applied. The prospect of such action is at present moot but its very possibility may eventually inject an element of considerable uncertainty in the outlook.

INVENTORIES—Inventory accumulation is levelling out. Stocks now appear adequate in most lines, indicating that pipelines are generally filled. Inventory buying, still heavy in view of current heavy volume of sales, would be stopped quickly at any sign of a price break. Inventory building, it seems, henceforth will have less of the stimulating effect on business that it had over the past year.

PRICE UNCERTAINTIES—Prices currently are still on the upgrade but it is widely realized that we may be nearer to a turning point than we were at any time in the past. Any indication of a weakening of the price structure would inject tremendous uncertainty into business operations and business policies, hastening the turn to deflation. Farm prices hold the key to the price structure; for the time being they are likely to hold firm.

BOTTLENECKS—These are disappearing rapidly, but some major ones persist, notably in steel. Their removal will be a slow task and in the meantime, they will act as a break on all-out production in several vital industries, particularly in the field of durable and capital goods. The manpower bottleneck, too, is at present far from solved.

APPEARANCE OF SURPLUSES—So far this is a relatively minor factor, limited to relatively few industries. But with production expanding vigorously and with high prices cutting demand, more industries will ultimately be forced to adapt output to sales potentials and to operate in a buyers' market. Retailers are already concerned over the drop in unit sales. While on the whole, a change from a sellers' to a buyers' market is to be welcomed, it is likely to have its upsetting aspects, despite the prospect that it will be gradual and spotty rather than a sweeping development.

FAVORABLE FACTORS

EMPLOYMENT—Full employment at high wages is perhaps the strongest supporting factor of our present-day economy. No slackening of employment is indicated, and there is actual evidence of continued manpower shortages in various industries.

PURCHASING POWER—National income, estimated last year at $195 billion, should exceed $200 billion in 1948, and together with large liquid resources of consumers and business serve as a strong prop of the postwar boom. Personal income payments are rising, due in part to the upward trend in wages, and business earnings continue at record levels.

BUSINESS SPENDING—Gross capital formation last year was at a rate of some $30 billion annually and should continue high, making for sustained heavy activity in the durable goods industries where order backlogs continue large.

CONSUMER DEMAND—Shows few signs of abating, despite constantly rising prices. While the latter may bring about certain shifts in consumer spending, overall demand is unlikely to decline from current levels so long as employment continues at present peak levels.

CONSTRUCTION ACTIVITY—Promises to continue at a boom rate, reflecting the dire need for housing and willingness of individuals to spend for this purpose despite high building costs. Industrial construction may decline somewhat, but residential building should be fully able to take up any slack.

FARM INCOME—An important part of the nation's income pattern, farm income shows every indication of continuing at an exceptionally high level, regardless of the vagaries of crop weather and price trends. The latter, for some time at least, will continue firm, reflecting high domestic food consumption and urgent foreign demands for American foodstuffs.

EXPORTS—While shipments abroad may run below last year's exceptional peak level, the worldwide demand for American goods and the European Aid Program will offset any marked sag in exports. Indicated high export level throughout 1948 is bound to be a strong sustaining factor in our overall economy.

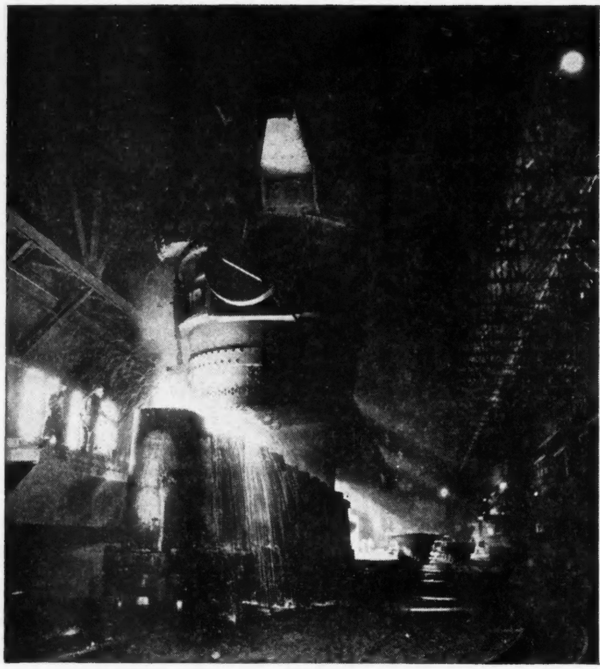
TAX OUTLOOK—Increasing evidence of the probability of at least a "token" tax reduction that will further support the nation's spending potential and, moreover, have a favorable psychological effect despite its inflationary implications.

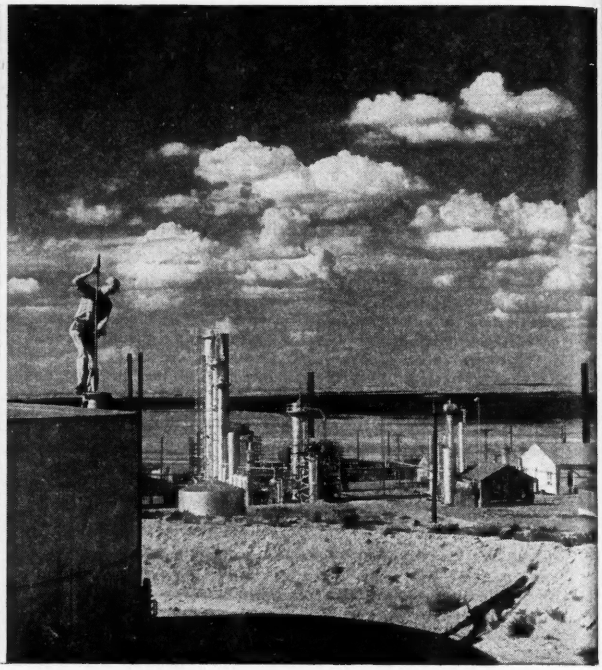
MONEY SUPPLY—Th huge overall money supply, despite mild efforts to curb the inflationary pressures arising therefrom, must be expected to continue as a strong inflationary boom potential that will be difficult to restrain in view of reluctance to deflationary measures particularly in the field of bank credit.

PRODUCTIVE CAPACITY—Has been greatly expanded by heavy postwar spending for industrial expansion and modernization, permitting increased activity in many fields heretofore held back by shortages.

FEDERAL SPENDING—Will continue high, injecting billions into the nation's income stream.

GENERAL FINANCIAL SOUNDNESS—Finance of American business, though somewhat more strained than a year ago by expansion and the high cost of doing business, on the whole continue strong and liquid, forming a healthy base for a high level of economic activity.





Which Industries ★ Offer Best Prospects for 1948 ★

By GEORGE W. MATHIS

PART I

1947 has been a big year in a great many ways, a year of many records, some of which may stand unbroken for a long time. But others may fall quickly. 1948, at least initially, may witness new peaks not only in overall business activity, in production and trade, in national income, prices and public spending, but in consequence thereof also record activity in a good many industrial fields with resultant excellent earnings connotations for many companies.

It would be erroneous, however, to generalize this rosy prospect, or to draw too definite conclusions of record earnings even where new peak volume of business is indicated. Though production and sales in some industries will expand further, a contraction of profits may be in the offing, and the latter part of the year—broadly speaking—may well bring an important test of the vitality of demand in many lines. Capacity operations for certain industries may be assured for a considerable period, but such factors as inventory profits and carry-back tax credits which contributed so strikingly to last year's excellent earnings, will not figure greatly in 1948 income accounts. On the other hand, more competitive conditions in many fields will add to the difficulty of overcoming high operating costs, the trend of which is further obscured by pending wage demands. Thus in all probability, divergent results will be more pronounced among the various industries this year.

Major industries will be stepping up production further to meet what seems an insatiable demand for their output. But in some others, no production gain appears possible since virtually all available capacity is fully utilized. Eleswhere again, raw materials shortages and, less frequently, labor shortages may preclude increased activity despite sustained high demand potentials. And undoubtedly there will be instances where the demand situation will not warrant increased output, or even calls for a lowering of production sights.

Thus despite the generally encouraging prospects ahead for American industry in the new year and discussed elsewhere in this issue from the broader economic viewpoint, the potentials of individual industries will necessarily vary a good deal. Steel, automotive, oil and the construction fields doubtless can look forward to sustained high volume and profits. Heavy machinery, railroad and electrical equipment, tire makers, coal and chemical companies will also continue to benefit from the vast demands that remain unfilled, or that will accumulate during the coming months.

On the other hand, high costs, greater competition and production fluctuations are likely to reduce profit margins in such lines as food, beverages, clothing, leather, home appliances, drugs, and cosmetics, tobacco and luxury goods, while continued unsatisfactory results are indicated for the aircraft and shipbuilding companies.

These summary views of course are subject to considerable qualification and elaboration, brought

out in our more detailed appraisals of all major industries. In view of their particular importance this year, these are offered in two parts—Part I to follow immediately below—while Part II will be presented in our next issue.

STEEL: The steel industry last year answered a trying challenge of unprecedented industrial demand with its most notable peacetime performance and will attempt to do even better this year. For not only were production records shattered but steel making facilities were so improved and expanded that there is an excellent possibility of ending the severe postwar steel famine some time in the next twelve months. This expectation springs from many developments, the principal ones being: (1) the great production record of 1947; (2) prospects for larger quantities of scrap metal, a most important factor; (3) the gradual realization of the industry's expansion program, costing over $1 billion and adding three million tons to ingot capacity and three to five million tons to sheet steel capacity; (4) absence of any important strike and work stoppage threats.

The most weighty of these factors is last year's production of some 85 million tons of raw steel, the equivalent of approximately 62 million tons of finished steel products, both of which are new highs for normal peacetime years. With much of the new capacity coming into operation in 1948, prospects are excellent for even higher output this year and for demand for many steel products coming into balance with supply, a factor of greatest importance to every steel consuming industry. But at the present moment, the steel industry finds its backlog of unfilled orders running up to five months' production at capacity operations. Given freedom from strikes and unduly severe shortages of essential raw materials, steel output this year might jump 5% to 8% above last year's record.

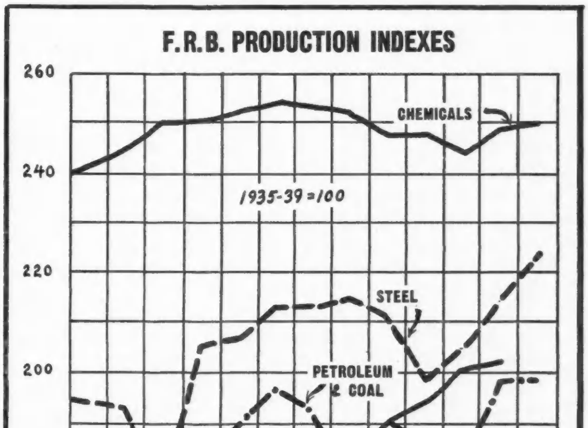
All the incentives and determinants for such a feat exist: Demand stands at record level, new capacity is being created rapidly, the flow of raw materials is better than at any time since the war's end, though far from completely adequate with the scrap shortage—and high prices—a particular headache. Upon the success in conquering the scrap shortage depends the dimension of the production record for 1948; concerted efforts to turn up more of this vital material have been initiated. Scrap is now being sought in China, in the Pacific Islands and on European battlefields for shipment to the U. S.

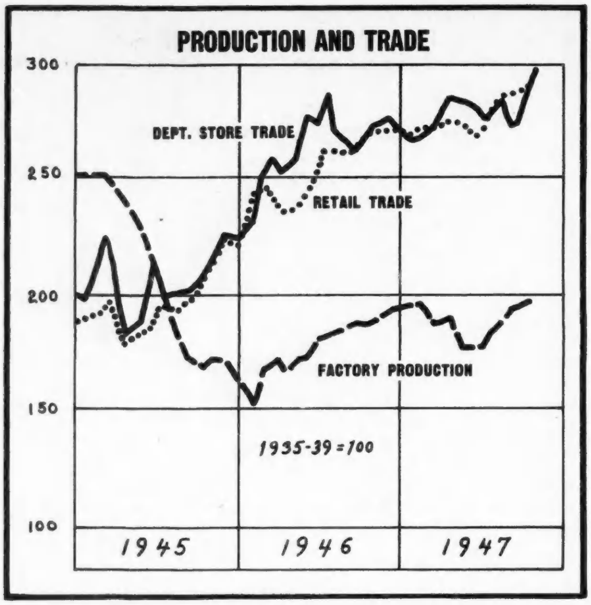
With adequate scrap supply on hand to feed the new and enlarged steel making facilities, there is every indication that steel operations can be maintained close to 100% of capacity instead of the 93.8% constituting the average weekly production during 1947. This in turn should mean more steel for consuming industries, despite requirements under the Marshall plan. Vital industries heretofore greatly handicapped by lack of steel, such as the automotive companies, the railroad car builders and the agricultural implement makers, should receive the greater allotments that they need to fill their huge accumulation of orders. Enough steel will indeed be a prime factor in the entire industrial outlook, for steel is the wheelhorse for 40% of America's durable goods manufacturers.

It stands to reason that this outlook also means continued excellent earnings for steel manufacturers, despite certain cost problems. Costs may further rise in the wake of new wage grants, but if earnings are substantial enough, no increase in steel prices may be necessary. The size of profits will also determine the amount of new funds which the industry will be required to seek during the new year to finance new capacity, and the overall problem may find reflection in dividend policies.

With profit margins restored by July price increases, earnings during the last half of 1947 have been excellent and profits during the early part of 1948 will be equally good. Dividends have been generous and are likely to remain so unless more conservative policies are dictated by future margin squeezes arising from "third round" wage increases. Both the question of price stabilization (in the event of higher wages) and the need for new financing are at present indefinite issues, the only "uncertainties" in an otherwise bright outlook picture. Reflecting the latter, steel shares of late have been among the best market performers and bid fair to continue so.

AUTOMOTIVE INDUSTRY: Automobile makers hope to turn out five million passenger cars in 1948 compared with 3.5 million last year; given enough steel, the industry can doubtless achieve this goal which would break an eighteen year old record. The five million vehicles produced in 1947 marked the third year in automotive history that annual production





has passed that figure. It was last reached in 1937 and previously in 1929. The 1947 production record was scored with the aid of an all-time high in truck output which approached 1,225,000 units. Slightly topping 3,500,000 units, 1947 passenger car production has been exceeded several times in the past.

Fairly immediate delivery of new automobiles in all but the lower priced brackets is one of the cheering prospects for 1948. Demand is still far ahead of the industry's ability to produce but dealers in both new and used cars anticipate that a buyers' market will return by midsummer in many lines, with waiting lists limited to Chevrolets, Fords and Plymouth cars.

All automobile manufacturers have greatly increased productive capacity since the war and are hopeful of increased sheet steel supplies to boost 1948 output. Production schedules for the first quarter are expected to reach new records, with an overall output gain of some 10% anticipated. In view of the industry's demonstrated ability to show excellent earnings on sustained large-scale operations and the fact that future prices may well average higher to compensate for increased production costs, further profit gains for most car manufacturers are indicated. If so, the conservatism which marked 1947 dividend policies may well give way to more liberal attitudes and larger total disbursements.

Automobile production finally got rolling in a big way late in 1947 and the industry is well geared to continue the new pace. Steel is the only requisite for its maintenance and talk about steel allocations (to facilitate implementation of the Marshall plan) practically the only uncertainty in the outlook. At this writing it appears more than doubtful (1) whether the Government will undertake the allocation of steel—rather than the steel industry which so far did an excellent private allocation job; and (2) whether the industry in any event would get smaller allocations in the future. Rather the prospect would seem that the industry will get more steel as additional steel sheet facilities become operative in the course of the year, chiefly during the latter part.

Thus it would appear that not only demand but production prospects are bright despite the fact that sharply advanced prices have doubtless cut into the potential market for new passenger cars. Truck and trailer production may decline somewhat, especially in the heavier models, but this should be more than offset by mounting passenger car output. Barring lengthy strikes not now foreseen, the industry should continue to make an excellent showing and this prospect has found reflection in the market action of automobile shares.

The promising overall potential is shared by the **automotive parts industry** which has done extremely well in 1947. Though volumewise, its postwar peak may have been passed, the need for replacement parts continues heavy and original equipment demand will be accentuated by rising new car production. Future wage increases, however, may exert mounting pressure on profit margins though this factor may well be offset by expected gains in labor productivity as an improved supply situation permits better scheduling of operations. Balancing all factors, continued good earnings and dividends are indicated for most companies in this field.

BUILDING: A larger volume of new home construction in the U. S. than at any other time since the early Twenties can be anticipated for 1948, if business in general remains at a high level and if the building industry exercises restraint in the matter of costs and prices. Total new construction is forecast at over $15 billion compared with $12.6 billion estimated for last year. Together with $5 billion to $6 billion of repair, maintenance and remodeling business, a $20 billion year is entirely possible for the building industry. The biggest factor should be residential construction as the need here is greatest. Private residential expenditures shoulud run at least $1 billion more than in 1947, or at around $6 billion. Industrial construction on the other hand may drop from $1.6 billion in 1947 to $1.3 billion this year, but public utility construction will be up from $1.3 billion to $1.6 billion. Publicly financed construction will advance about 30% over the 1947 volume, according to official estimates, mostly because of highway construction and gains in building of schools, hospitals and other institutions.

Despite higher costs, materials should be more readily available than in 1947 as the industry through expansion and added manpower reaches near capacity. Building materials output rose to an all-time high last October but while current production in general will support the anticipated $15 billion worth of new construction in 1948, shortages of several key materials will make difficult any increase in volume above that figure.

Building costs, like most other costs now, are on an average double those of prewar; thus while the anticipated 1948 construction volume would be the largest in history in terms of dollars, if expressed in physical volume it would still be far below that of 1941, and not even near the volume of the 1929 boom. What's more, there is nothing to indicate that the end of rising prices is in sight. Without question, costs are slowing new business and investment capital is showing more caution in financing new construction. Costs, in short, will play an exceedingly important role in 1948 construction.

Pitted against the cost factor is the factor of need. Although in 1947, a near-record number of

800,000 new dwellings will have been completed, this is far below requirements. The population of the country has increased by about eleven million during the last seven years and family formation has proceded at a record pace. Thus any building year for the next five to seven years that does not produce one million new homes must be considered as falling below requirements. Essentially, the battle between costs and neds will determine the extent of the building boom both near-term and over the longer range. Doubtless, in view of existing needs, construction will be heavy almost regardless of costs; the big question is whether prolonged boom conditions can be supported at curren peak costs.

Early in 1947, there had been much evidence of increasing resistance to high building costs but a more favorable trend was apparent since July when building activity rose sharply and contra-seasonally. This trend has continued, leading to the belief that the cost factor has yielded to the need factor. Better supplies of materials, fewer bottlenecks and improving labor productivity should ultimately lead to lowering of building costs, though for the moment no great decline appears indicated in view of the present wage structure. Still a relatively high level of construction is anticipated at least through 1948, with resultant large earnings for the major divisions of the biulding materials industry. The better situated building shares undoubtedly have a good deal of long term attraction in view of the need for housing and repairs. Most of them did well last year and should do even better this year. Marketwise, the recent rate of earnings is discounted fairly conservatively, doubtless reflecting the uncertainties injected by high construction costs.

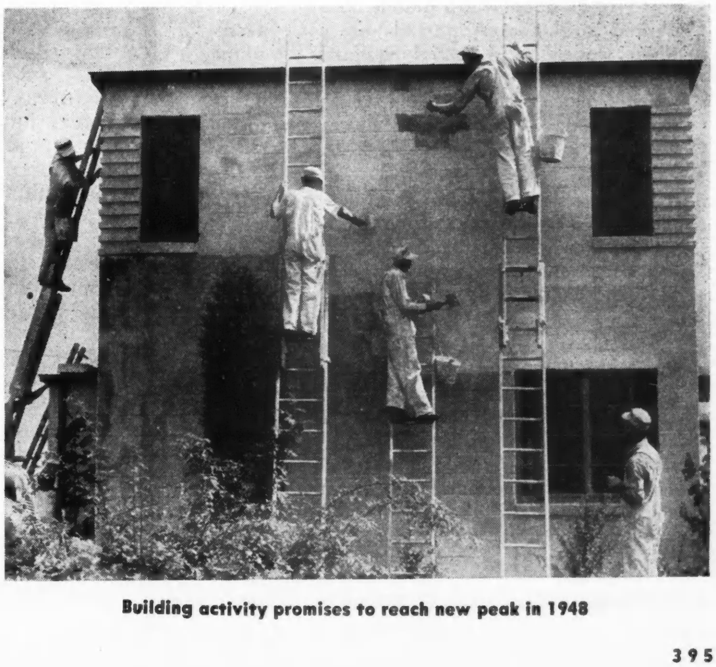
CHEMICALS: Last year's output of chemicals reached a rate of around 150% above the prewar average while chemical exports were reported at about three times the total for 1941, the last peacetime year. 1947, by all odds was a good year; the outlook for 1948 is no less promising. The industry can expect another record output in fertilizer, about 7% over 1947, with demand still outrunning supply. Insecticides should also reach a new record volume. A banner year for paints and other protective coatings is foreseen. Increased output of soda ash and caustic soda will help relieve critical shortages, but acids will be in adequate supply. Plastics output will continue to grow, possibly by as much as 50%, backed by plant and facilities expansion costing over $175 millions.

The postwar era has been one of vigorous expansion which last year continued at a high rate and will ultimately bring expansion costs to more than $2 billion. Large new plants remain to be scheduled for actual construction; the biggest long term expansions have been in the field of organic chemicals, synthetic fibers and insecticides though inorganic chemicals for industrial uses continue to account for over two-thirds of industry output.

With additional new plants coming into operation, the outlook for production and sales remains favorable and profits, recently squeezed by higher costs, will improve to the extent that higher costs are covered by price adjustments. Domestic demand continues heavy in line with high industrial activity in general, and foreign requirements under the Marshall Plan promise to boost sales, particularly of fertilizers. The latter companies have been making the relatively best gains recently and promise to take the lead in coming months, but striking improvements have also been made by other concerns. Marketwise the entire chemical group has performed above average, reflecting promising long term growth prospects arising from the developments of new products and markets. Future earnings improvement, over the nearer term, will however depend importantly on price adjustments, since average selling prices have risen only moderately above prewar in the face of constant cost increases.

PAPER: The paper industry has been and still is enjoying one of the most vigorous postwar booms with facilities strained to satisfy the extremely heavy demands for virtually all paper products. Not before Spring, it is generally believed, will supplies of most grades of paper, excluding newsprint, be about equal with requirements. Production capacity has been steadily expanded and will be adequate in 1948 to make over 22 million tons, compared with estimated 1947 output of 21.1 million tons. The first "rush" of postwar expansion probably will be completed in the course of this year, henceforth production may be expected to folow closely the changes in general business conditions.

Foreseeable demand undoubtedly will continue high, and close to record profits are anticipated for most companies over the nearer term. Still, supply stringencies should continue to ease from now on. Concurrently with maximum operations and increased capacity, there has been a better supply of pulpwood, market wood (*Please turn to page* 430)



Building activity promises to reach new peak in 1948

THE POLITICAL OUTLOOK

By E. K. T.

ASSUMING, as everyone does, that President Truman wil be a candidate to succeed himself (which happens to be contray to his expressed wishes), conjecture turns upon whom he will select, or have selected for him, as vice presidential nominee. Crystal gazing is an overworked profession in Washington. Following the lone operators is dangerous business. But if one follows the consensus, as distinguished from the individual seers, the lineup as of today is this: The party wants James V. Forrestal, but the President wants Governor Monrad Wallgreen of Washington.

WASHINGTON SEES:

Henry A. Wallace's announcement added nothing to the political picture which had not been evaluated both in his former party and in that of the opposition—if, indeed, any party other than that of Mr. Truman could be regarded "opposition" in Wallace's current thinking.

Casual readers of newspapers might be led to believe the proclaimed "availability" of the former Vice President was a greatly hoped-for, much desired revelation. Apparently everyone, everywhere, was all for it! Fact of the matter is that the democrats, holding to a slim lead in the states in which Wallace's followers wield some strength, are frankly worried. The balance of power may rest in his hands.

Democrats wil capitalize upon the appearance that there is nowhere in their party a refuge for the Communists or their fringe. To that extent Wallace's followers seem to have supplied an answer to what promised to be a troublesome issue.

The history of third party movements is frequently quoted, usually with fundamental elements overlooked. In 1924, Robert M. LaFollette, Sr., drew what was then considered the "liberal" element of the GOP into a third party, carried one state — his own Wisconsin. But the third party nominee who preceded him — Theodore Roosevelt — profoundly affected the 1912 outcome. Wallace is no Roosevelt!

REPUBLICAN "king makers" who have been virtually out of employment for almost a generation can't agree on front runners. It has been many years and many nominees since the early Roosevelt days. But while names on convention slates have changed, pullers of political strings have shifted little. The important republicans thought it would be Vandenberg of Michigan, but he changed their minds; with Warren of alifornia, finally recognizing that second place is worth while. They believe that's the highest spot he aspired to anyway. Much as Stassen does! Now they're utterly confused! They now see Taft, Dewey —or Saltonstall!

MILITARY MEN can be counted out of the Presidential pictureas the new year gets under way. Service jealousies have just about eliminated Eisenhower, MacArthur and Bradley—and the democratic chieftains keep prodding their political foes with mentions of such names as Nimitz. The mail-bag lobby against Universal Military Training has been terrific (any congressman wil verify that). And there is belief abroad that the generals might be too likely to become surfeited with scrimmaging, demand to play a real game.

COOL RECEPTION greeted the long-awaited Presidential declarations on federal taxes. One GOP phrase-maker saw it a Mother Hubbard — "covers everything." Even stalwart democratic partymen saw it as a too obvious political move, an inept one of which they are not having any part despite its patent bid for votes which might deflect to the Wallace third party. Radio listeners heard applause and buzz of excitement. Actually, much of it was for Secretary Marshall who attended the joint sesion in his Cabinet capacity.

As We Go To Press

Bearing out forecasts made many months ago, republican leaders have abandoned the war contract investigating committee which sent Harry S. Truman to the White House but consigned its successor chairman to a degree of oblivion.

Party leaders now have agreed to continue the senate committee probing of wartime and postwar operations in the form of a "super" committee. Its chairman will not be Owen Brewster of Maine, but Homer Ferguson of Michigan. The Hughes-Roosevelt fiasco is the reason. Brewster picked wrong targets -- perhaps too ambitiously!

Ferguson, the former Detroit prosecutor and judge, will head the new group on the basis of his performance in the General Meyers investigation-- but more importantly as a reward for silent acceptance of the "hot potato" which was the ill-prepared inquiry into Howard Hughes' and Elliot Roosevelt's aviation procurement deals.

Solution (temporary solution at least) has been found for the wage problem in the building trades. The indicative New York Metropolitan areas have extended to 1950 the current rates, and the example will be followed. At least that's a reasonable hope.

No longer, it is reasoned, will contractors be required to make their estimates on unforeseeable conditions. That will facilitate the placement of contracts -- including not only housing developments but also large-scale municipal projects. The effect is expected to be immediate upon materials costs. The New York agreement will be widely quoted in other fields, likely effectively.

Records of the Civilian Aeronautics Board offer little consolation to stockholders in the airlines, but the anticipated 1947 deficit of scheduled routes running to a 7 million dollar plump, is encouraging. It could have been substantially worse.

The succession of accidents last winter and again in June, cut deeply into public confidence. The airlines, it must be remembered, take 85 per cent of their income from passenger fares, and the prospect was gloomy. That apprehension did not develop.

Airlines have carried an estimated 7.7 per cent more passengers domestically and 35.6 per cent more on international routes than in 1946. Moreover, the domestic fatality record, while many times worse than last year, still was only 3.21 per cent per 100 million passenger miles.

Basically, the failure to make a profit is traceable to the same factors that affect all industries with regulated rates. Costs, both in salaries and materials, have risen faster than income. Importantly, overexpansion has been greater than the federal regulatory agencies have expected.

Most comforting in the outlook picture is the fact that on two essential fronts -- subsidies and safety -- the Presidential and congressional air policy boards have significant recommendations which are not apart on basics.

Democratic election hopes which spring from poll results may be based upon somewhat false premises. The spread between the two parties in pivotal states has been narrow, and so far in favor of the democrats; but the pollers have not inquired as to personalities for each ticket. That could change the equation, say the republicans.

Peacetime-inflated government payroll will get scant encouragement from the White House. There is a departmental boost in prospect and it's beginning to jell -- but the recipients of Uncle Sam's checks will be disappointed. They've been led to believe by Senator William M. Langer and others that there is at least $1,000 a year in sight for each. There's no such thing!

There are at least 30 bills to up pay of government workers. Ranges are from $500 to $1,000. Principal argument in every instance is the urge of matching in inflationary tendencies of recent months.

Government workers are caught in a vise. The White House is opposed to any changes which might produce higher costs, is weighing the friendship of federal workers and their friends against the obvious inconsistency of building payrolls at this time.

Langer, who seldom reflects his party's thinking on legislative issues, has little support for his program and the decision may resolve on a $500-a-year raise recommended by Representative Edith N. Rogers of Massachusetts.

Probability is that postal workers will be given a raise. Their's is the most immediate contact with the general public, their's the best lobby. Langer is chairman of the senate's committee on post offices. The cost of pleasing that group appears small in the individual cases, the impact upon the federal budget is far from it.

Even though slogans don't build houses, one coined by Rep. Ralph A. Gamble, chairman of the house group probing the problem may be worth recording: "Men, money, and materials are the three keys to housing." Gamble finds men the most important -- without them the other two are hardly useful.

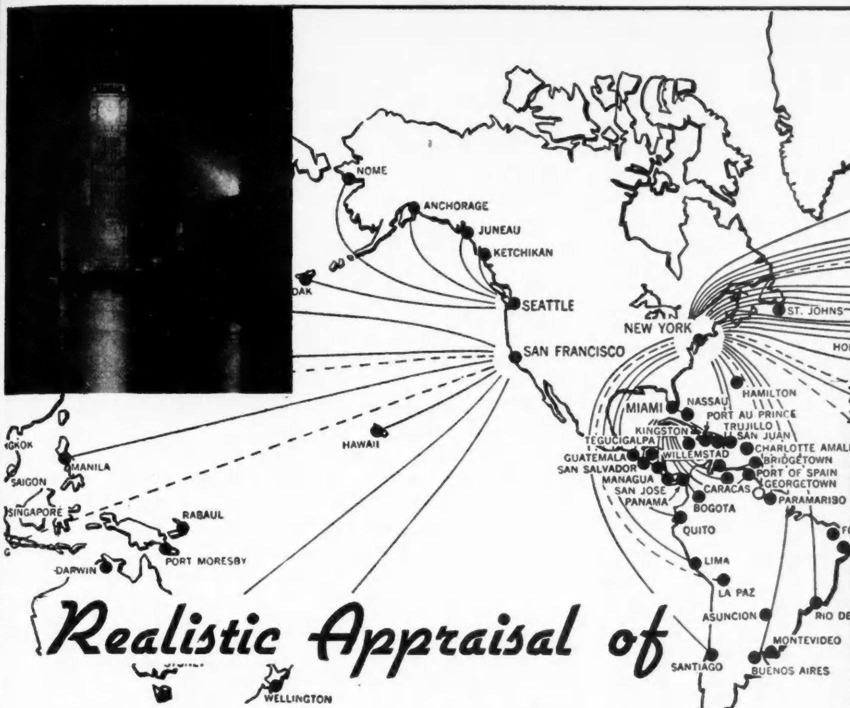
Congress has reopened with a declaration of program ringing through the historic halls of Capitol Hill: Supply relief abroad and ease prices at home! It has a familiar ring; sounds much the same as the marching song of the special session.

Senator Arthur H. Vandenburg's withdrawal from Presidential lists signalizes his retirement from politics. Like many others on the wane end of middle age, the Michigan senator has given too much of his time and energy to permit proper attention to health. He's an ill man.

Another loss faced by congress is Rep. Everett Dirksen of Illinois, who's quitting at the end of this term. Another slave-like worker he has ruined his eyes, is stopping wisely while there's still time.

At the other end of "losses" facing congress next year is the gentleman from Tupelo, Rep. John Rankin. The Mississippi race-baiter and white supremacy champion, has announced his candidacy for re-election, but those who know him best say he doesn't mean it.

Rankin was a candidate for the senatorship in a recent special election. He finished fifth in a field of six, and the sixth was a republican. In Mississippi! Rankin has told his campaign committee he would not seek to return to congress if he failed to win or, at least, make a good showing. He failed even to carry his own voting district.



Photos by British Combine

Realistic Appraisal of INTERNATIONAL AFFAIRS

By V. L. HOROTH

The state of international affairs at the beginning of the third year of peace may be described as deplorable. As a result of the aggressive policy of the Soviet Government and the scheming of the communists, the "two world" system has become firmly established. But this is not all. The breach between the democratic "West," committed to the preservation of free economy and private enterprise, and the collectivist, communist-dominated "East" is constantly widening, and it is no exaggeration to say that the existing international tension is the worst since the end of the Second World War.

The strife between the United States and the Soviet Union, the leaders of the "two worlds," has by this time eclipsed all other antagonism between and within nations. It has blocked all progress toward atomic disarmament, it has interfered with the working of the United Nations organization, and it has prevented the signing of peace treaties with Germany and Japan. With the Foreign Ministers' Council adjourning last month without setting a datefo r reconvening, the direct contact between Washington and Moscow has been broken. The old wartime line-up of nations has given way to a ne winternational alignment.

There is little likelihood that the tension between the United States and the Soviet Union, popularly known as "cold war," will relax in 1948. On the contrary, the strife between them will probably be more intense and more determined than ever before. The "West," hitherto on the defensive, has at long last become more confident and aggressive, thanks largely to Secretary Marshall. The wave of communism is now definitely receding in Western Europe. However, the founding of the "Cominform" last Summer is an indication that there will be more trouble ahead. In fact, the comunists may still be able to chalk up some gains in Asia, where the boundaries of the "two worlds" yet remain to be drawn.

It is no wonder that, under these circumstances, people all over the world fear not only new civil wars, but another international conflagration, far more vicious and devastating than the two earlier ones. Although we realize the deterioration of international relations, we do not believe that a "shooting" war on a world scale wil break out in 1948. The Kremlin is too well aware of the military and economic superiority of the West. Undoubtedly Stalin's policy will be to test how far Washington will go in backing up in the individual countries on the periphery of the western bloc, such as Greece, Turkey, and Persia. But, in our opinion, the Rusians are in no shape to fight another war at present, and consequently it

should not be difficult to call their bluff.

It may augur well for the future that the economic relations between the "East" and the "West" have not deteriorated to the extent the political relations have. This is particularly true about the Eastern and Western European countries which have by this time negotiated some 70 trade pacts. The economic recovery of the sixteen "Marshall Plan countries" will help indirectly the eight "Molotov countries" in the East. At any rate, as long as some trade flows between the "two worlds," there is a ray of hope that the breach can be spanned at some time in the future.

Communist Retreat in Western Europe

For the people in the 16 Western European countries, the New Year begins the hard way. There has been a disappointing set-back in the rate of recovery. There is less to eat than one year ago, and consumer goods, clothing in particular, are still too few. Prices are much higher, and the housing situation has improved hardly at all. Most important, the gold reserves and dollar credits have ben either completely exhausted, as in France and Italy, or are nearing exhaustion, as in Sweden and the Netherlands.

But while the actual current situation in Western Europe may be worse than one year ago, the outlook is actually better. In five to seven months, the Western European countries should begin to feel the benefit of the inflow of some $6 billion worth of foodstuffs, raw materials, fertilizers, and machinery that will be provided for them under the Marshall Plan. If the weather is normal, their crops should be from 30 to 50 per cent larger than in 1947. Their industrial production in 1948 should be well over that of the prewar years. It is not often appreciated that while rehabilitation suffered a set-back in Western Europe in 1947, considerable progress was nevertheless made in restoring transportation facilities and industrial production. This is clearly shown in the accompanying table.

But there is still another outstanding development which makes the 1948 outlook hopeful. This is the exclusion of the communist parties from participation in the government in France, Italy, and Belgium. We believe that the "cold war" in Western Europe has been definitely won, thanks to Secretary Marshall's firm attitude, and that there is no longer any danger of the communists capturing any of the governments. There will undoubtedly be a great deal of trouble in Italy, where general elections are to be held in March. The strife in France between communists and non-communist labor unions is not likely to help the recovery either.

Tide of Communism Ebbing

But to repeat, not only is the tide of communism ebbing in Western Europe, but unions in general are losing much of their former influence. This means less stress on fruitless social reforms, the nationalization of industries, etc., and more concentration on rehabilitation. The Western European business man will be able to plan ahead with more confidence, and foreign investors may be more inclined to invest in new enterprises.

The effectiveness of American aid under the Marshall Plan and the speding up of the recovery will, to a great extent, depend upon the earnestness with which some of the Western European countries fulfill the conditions stipulated in the Marshall Plan. The most important of these conditions is the restoration of financial stability, meaning primarily currency stabilization on a realistic level. In order to accomplish this, two conditions will have to be satisfield: (1) balancing of at least the ordinary state budget, and (2) establishing a rough equilibrium in the balance of international payments. These tasks will not be easily accomplished without relieving the inflationary stress arising from a heavy excess of purchasing power over the available supplies of goods. This will involve much heavier taxation, further cuts in the production and imports of non-essentials, and possibly even the blocking of deposits. The difficulties of the Schuman government in France demonstrate that the road toward the restoration of financial stability in Western Europe will not be easy.

Germany May Be The Star Performer

The relatively greatest progress in Western Europe is likely to be shown in 1948 by "Trizonia," the three western zones of Germany, the economic merger of which is only a matter of time. Industrial production, currently running at the rate of about 50 per cent of prewar, should be pushed ahead considerably as a result of American expenditures for food, raw materials and equipment scheduled at at least $2 billion. However, the economic resuscitation of Germany (without which Western Europe cannot be prosperous) will depend upon the re-establishment of a sound currency system. With the reichsmark no longer a measure of value, practically all business is done by cumbersome barter. We anticipate a monetary reform in "Trizonia" early in 1948, accompanied by a drastic readjustment of German purchasing power to the volume of available goods. The Germans should have definitely more food available in 1948—which means that there will be increased incentive to work—but they will probably have to wait longer for other consumer goods, such as textiles.

For **Great Britain,** the year 1948 should be somewhat less hectic than 1947. With morale up and production increasing, inflationary pressure should abate somewhat. Moreover, with expenditures in India, Palestine, and Germany sharply reduced, a considerable betterment should take place in Britain's balance of international payments, permitting some relaxation of the present "austerity." But we do not expect that the year will bring about the solution of al difficulties, and Britain will undoubtedly have to continue to cope with bottlenecks in manpower, transportation and raw materials.

France in 1948 is faced with the problem of balancing the budget and of devising a better taxation system as a preliminary to the revaluation of the franc. There will undoubtedly be considerable dissention even among the non-communists about how to arrest the vicious inflation-spiral. We expect that France will be less dependent upon food imports during the latter half of the year. However, the problems of raising the incentive to work harder and of the existing labor shortage will probably continue unsolved.

We anticipate a gradual improvement in the situation **in Italy,** although the country will by no means be able to do without our help. Now that the lira has been devalued, Italy is likely to make a strong bid for export markets and tourist traffic. With the communists still entrenched in the main industrial areas, a good deal of stormy weather is still ahead.

The Netherlands has been faced by problems similar to those of Great Britain. The rate of recovery,

Progress in Europe

WESTERN EUROPE:	Industrial Production 1937 = 100 1945 4th Quarter	1946 4th Quarter	1947 3 Months End Sept.	Freight Traffic 1937 = 100 1945 4th Quarter	1946 4th Quarter	1947 3 Months End Sept.	Output of Electricity 1937 = 100 1945 4th Quarter	1946 4th Quarter	1947 3 Months End Sept.
Austria	......	......	......	......	90	129	158	149	191
Belgium	50	81	83	61	85	94	102	129	122
Denmark	81	104	103	150	138	142(d)	128	171	192(i)
France	......	90	89	82	115	113(d)	111	137	130(h)
Great Britain	......	......	125(e)	......	——	——	180	210	168(i)
Ireland	96	112	109(c)	194	165	138	180	217	172(i)
Italy	......	52	60(c)	......	65	76(g)	107(f)	122	160(d)
Norway	81	110	120	97	127	141(c)	114	144	112
Netherlands	57	89	91	63	92	93(d)	104	155	138
Sweden	97	103	105	175	185	173(d)	194	209	174(c)
Switzerland	......	......	......	104	118	120	148	148	174
Turkey	......	......	......	211	240	......	167	185	176(j)
Germany:									
American Zone	26(a)	45	51	......	......	......	......	......	......
British Zone	27	33	38	......	......	......	......	......	......
EASTERN EUROPE:									
Czechoslovakia	......	......	......	58	92	110	123	158	168
Finland	59	76	83	......	......	......	109	113	101(i)
Hungary	......	......	......	30	79	102	......	......	......
Poland	61	103	123	48(f)	114	136	150	199	188
Rumania	......	......	......	62	74	......	......	......	......
Bulgaria	148	153	162	......	......	......	226	246	258(h)

(e)—Partly Estimated.
(a)—January 1946.
(b)—January 1947.
(c)—Second Quarter, 1947.
(d)—Three Months Ending August.
(f)—1938 = 100.
(g)—3 Months Ending May.
(h)—3 Months Ending July.
(i)—3 Months Ending October.
(j)—First Quarter.

somewhat slow up to now, should be helped materially by any improvement in the German or the Dutch East Indian situation.

Belgium and **Switzerland,** the two most prosperous countries on the Continent, should need relatively little aid from this country. Their further progress seems to be largely dependent upon the recovery of the surrounding countries and the convertibility of European currencies. Much the same is true about **Denmark** and **Norway.** Some belt-tightening is due next year in **Sweden.** The Swedes have discovered that they have over-reached themselves by extending too many credits (to Russia in particular) and by selling to the countries with inconvertible currencies.

Dollar Problems Facing Latin America and the British Dominions

Two developments characterized the economic situation in Latin America at the beginning of the new year. With the exception of **Cuba, Venezuela, Uruguay,** and **the Dominican Republic,** all Latin American countries are scraping the bottom of the barrel insofar as gold and dollars are concerned. That means that in the future their purchases, particularly from the United States, will be more and more dependent upon their current earnings of dollars, i.e. upon their exports to us. Secondly, the present prosperity in a number of Latin American countries is dependent upon the high prices of their products. If it were not for high prices, they would be going through severe "shake-downs." To postpone the postwar readjustments Latin American countries (like American farmers) are interested in the maintenance of the prices of their commodities around present levels. They hope that either the Marshall Plan will enable them to sell their commodities to Europe at high prices **for dollars,** or that some other way will be found to provide them with extra dollars. Hence a proposal for the "little Marshall Plan" for Latin America.

We are afraid that Latin America expects too much from the Marshall Plan arrangements. For this reason, we anticipate that some of the countries will be unable to postpone their postwar readjustments any longer, and that they may even have to revaluate their currencies. We believe that our exports to Latin America are now definitely past their peak.

The Marshall Plan may give a lift insofar as dollars are concerned to some of the British Dominions, particularly to **Canada,** and consequently, their dollar problem may be somewhat eased later in the year. Like Latin America, the Dominions will probably have to keep their purchases from this country down to the level of their current earnings of dollars. Unlike Latin America, however, the Dominions are not faced with severe postwar readjustments (their price levels are as a rule below the world price level). We expect that prosperity at a high level will continue in **Australia, New Zealand, Canada,** and especially in **South Africa** which will undoubtedly remain one of our best customers.

Eastern Asia's Vulnerability to Communism

As far as Eastern Asia is concerned, the West is handicapped in its contest with Soviet Russia by the ignorance and the extremely low standard of living of the populations. Whereas in Europe, even in Yugoslavia or Finland, the introduction of communist doctrine means a lower standard of living and retrogression as far as culture is concerned, in Eastern Asia, as Mr. C. L. Sulzberger recently pointed out in the New York Times, the *(Please turn to page 437)*

10 ★ ★ ★ Potential MARKET LEADERS FOR 1948

By

THE MAGAZINE OF WALL STREET STAFF

The stocks chosen for potential market leaders in 1948 and analyzed in thumbnail fashion on the subsequent pages have been selected for potentiality of above average appreciation during the year ahead. It is in the latter sense, essentially, that we apply the term "potential market leaders." Our selection has been made after thorough study and skillful research and represents companies in fields which we believe offer exceptionally good prospects for excellent business over the next twelve months.

Our Basis For Selection

Considerations of mere speculative appeal have played a relatively minor role in culling these equities from a long list of likely candidates. In accordance with our policy, our recommendations were based not only on the intrinsic value of the stock, in terms of financial position, earnings and dividend prospects, or a company's and industry's strategic position in today's economy, but also on technical considerations, market sponsorship and other pertinent factors. In short, we have applied all the usual criteria that necessarily and prudently enter the selection of securities, but special attention has been given to current and prospective economic conditions and the extent to which recognized potentials have already been discounted by past market action.

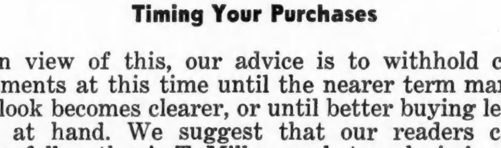
Thus among the equities selected are those of companies in industries with outstanding demand prospects in the foreseeable future, including steel, building, automobile, paper, oil and chemical shares. Inclusion of two railroad stocks was primarily based on expectation of continued high freight traffic and anticipation of improved earnings in the wake of freight rate increases, though market action and other important determinants also entered. In every case, our choice has been dictated by a variety of factors which we believe may combine to render acquisition of these stocks at the proper time profitable.

As to the timing of purchases, we frankly believe that the next few months may bring more opportune buying points than current price levels. While the market has been enjoying its customary year-end rally, it is quite possible that this may be followed by a new testing of recent market lows prior to any further uptrend. The business outlook, at least for the earlier part of 1948, is admittedly good, presaging well sustained economic activity and excellent earnings. Yet there are the usual imponderables to be reckoned with, and a good many question marks regarding the outlook beyond mid-year that may well promote reactionary trends for some time at least.

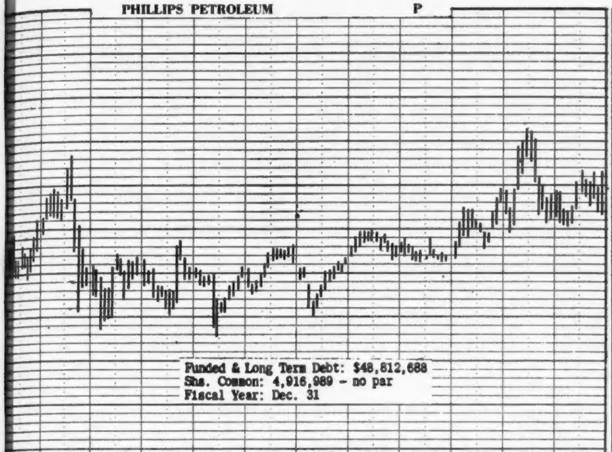
Gauging the market outlook at this time must take into consideration the political uncertainties of a Presidential election year, clarification of which may take some time and which may always create market upsets. Additionally there is the possibility for foreign developments that may have a very distinct bearing on the course of things at home. Either may well result in better buying levels and we feel it is always good policy to try to take advantage of any temporary downtrends that may occur.

Timing Your Purchases

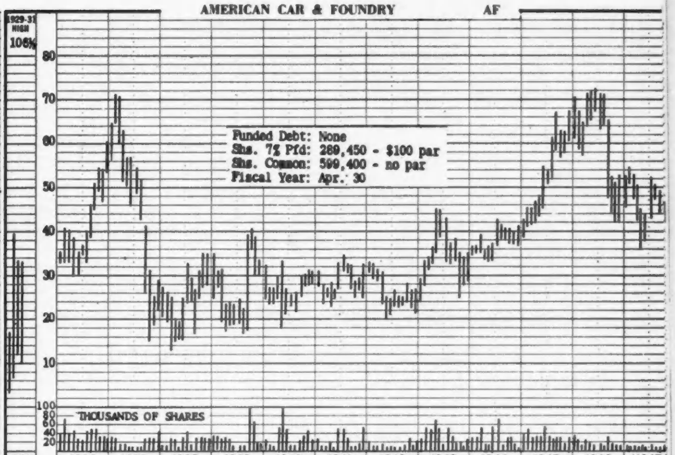
In view of this, our advice is to withhold commitments at this time until the nearer term market outlook becomes clearer, or until better buying levels are at hand. We suggest that our readers carefully follow the A. T. Miller market analysis in each issue for guidance in timing future purchases. He will inform you of the opportune time to buy these securities and he will—later—also advise you when to sell so as to realize maximum profits. If in the course of the year, unforeseeable developments should arise which might suggest revision of the list of recommendations, Mr. Miller will likewise inform you.



Ten Potential Market Leaders for 1948



1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
4.02	5.42	2.03	2.21	2.61	3.92	2.92	2.88	4.26	4.59	4.60	
2.50	2.75	2.00	2.00	2.00	2.25	2.00	2.00	2.00	2.00	2.00	2.50
23.4	30.7	43.7	24.3	29.1	30.1	33.6	24.5	30.7	43.3	44.6	36.0



YEARLY RANGE FROM 1932		1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
	EARN.	d 1.36	d 2.12	d 6.15	d 3.40	5.23	12.09	5.05	5.95	7.18	5.54	5.26	
	DIV.	-	.25	-	-	-	-	2.00	2.00	2.50	3.00	3.00	3.00
Wkg Cap $ Mil		19.6	22.9	21.8	17.6	19.5	20.4	39.4	24.9	33.6	41.5	55.0	50.3

PHILLIPS PETROLEUM COMPANY

BUSINESS: Company is one of the larger integrated units in the petroleum industry, owning in whole or in part nearly 8000 oil and gas wells in domestic and foreign fields, along with several millions of acreage, large pipelines and refineries.

OUTLOOK: With demand for petroleum products of all kinds likely to exceed supply for an indefinite period ahead, thus assuring a firm price structure, volume and earnings of Phillips should continue at least at their current highly satisfactory level. The company's progress during nine months to September 30, 1947 was rather spectacular, with volume rising to approximately $210 million, nearly $50 million more than in the relative 1946 period. As might be expected, net earnings also rose sharply to $5.20 per share compared with $3 in the 1946 period on the average number of shares outstanding. Since then one million additional shares have been sold, bringing the total outstanding to about 5,984,000. Adjustment of per share earnings would thus lower the figure to about $4.30 for the 9 months cited for 1947. Proceeds of this financing were used to retire bank loans totaling $46.3 million incurred to acquire all the stock of Pan Oil Company and for other corporate purposes. Phillip's crude production and refinery output should be materially expanded through acquisition of Pan and two other oil concerns, with consequent benefit to 1948 volume and earnings potentials. As for dividends, in the last half of 1947 the directors raised the quarterly rate to 75 cents per share from a previous level of 50 cents.

FINANCES: As the above mentioned sale of 1 million shares late in 1947 was mostly absorbed by the company's stockholders at a price of 49, bringing almost $49 million new money into the treasury, allowance for this increment should be made in weighing the appended balance sheet as of August 31, 1947.

MARKET ACTION: Relative stability has been characteristic of Phillip's shares during the past year, shown by a range of high—63¾, low—50½. A recent price was close to 61.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1940	Aug. 31, 1947 (000 omitted)	Change
ASSETS			
Cash	$ 13,805	$ 18,469	+$ 4,664
Receivables, net	7,915	23,357	+ 15,442
Inventories	23,459	36,715	+ 13,256
TOTAL CURRENT ASSETS	45,179	78,541	+ 33,362
Plant and equipment	357,233	567,574	+ 210,341
Less depreciation	185,816	298,121	+ 112,305
Net property	171,417	269,453	+ 98,036
Other assets	9,963	30,674	+ 20,711
TOTAL ASSETS	$226,559	$378,668	+$152,109
LIABILITIES			
Notes and interest payable	$ 2,307	$ 5,527	+$ 3,220
Accounts payable and accruals	7,249	18,872	+ 11,623
Reserve for taxes	6,493	18,099	+ 11,606
TOTAL CURRENT LIABILITIES	16,049	42,498	+ 26,449
Deferred liabilities	562	1,165	+ 603
Minority interest	....	4	+ 4
Short term debt	1,857	32	— 1,825
Long term debt	30,733	56,849	+ 26,116
Reserves	3,590	7,863	+ 4,273
Capital	132,687	160,202	+ 27,515
Surplus	41,081	110,055	+ 68,974
TOTAL LIABILITIES	$226,559	$378,668	+$152,109
WORKING CAPITAL	$ 29,130	$ 36,043	+$ 6,913
Current Ratio	2.8	1.8	— 1.0

AMERICAN CAR & FOUNDRY COMPANY

BUSINESS: Company is the second largest railway car builder. It also manufactures car wheels, repair parts and supplies, iron and steel forgings, car floats, and small types of marine craft.

OUTLOOK: With a large part of the rolling stock of American railroads in need of replacement, the car building industry faces a prolonged period of excellent business. The immediate future is chiefly concerned with whittling down the current industry backlog of 125,000 freight cars at the present rate of close to 10,000 cars a month. The intermediate future involves meeting the larger rehabilitation program of the railroads, since 20% of freight cars are over 30 years old, and the rest showing considerable signs of wear-and-tear. The substantial volume of potential business is reflected in the impressive backlog of $270,000,000 that the company had as of November 20, 1947. Improvement in supplies is enabling the company to approach capacity operations of expanded facilities. Earnings for the 1947-48 fiscal year are estimated at well over $8.00 a share, compared with $5.50 in the 1946-47 fiscal year. Dividend payments this year are likely to exceed the $3.00 paid in 1947. Affording a generous yield and with distinct appreciation prospects, the common stock of this company has considerable speculative appeal.

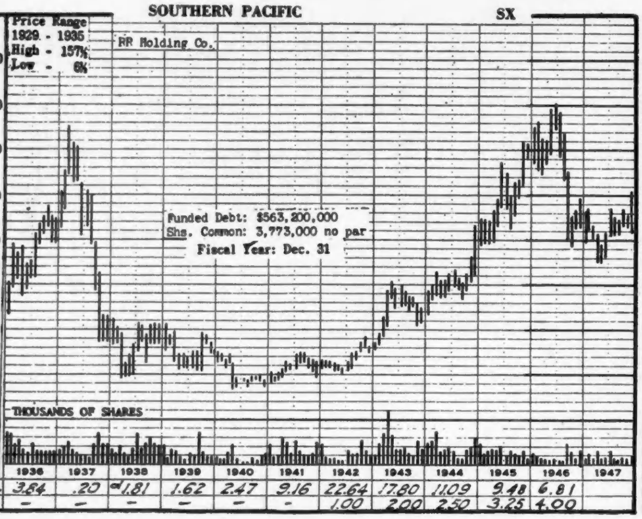
FINANCES: Large wartime earnings enabled the company to improve its finances materially. With the clearing up of virtually all preferred dividend accruals, present finances are sound.

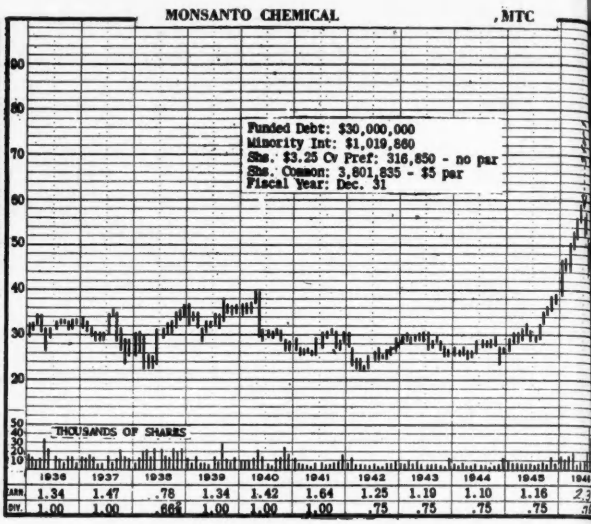
MARKET ACTION: Stock is somewhat more volatile than others in its group. Recent price of 40 compares with a 1947 range of 54⅞ high—36 low.

COMPARATIVE BALANCE SHEET ITEMS

	April 30, 1940	1947 (000 omitted)	Change
ASSETS			
Cash	$ 8,579	$ 7,256	—$ 1,323
Marketable securities	1,846	5,783	+ 3,937
Receivables, net	8,912	13,982	+ 5,070
Inventories	9,270	46,202	+ 36,932
TOTAL CURRENT ASSETS	28,607	73,223	+ 44,616
Plant and equipment	72,102	105,933	+ 33,831
Less depreciation	27,864	53,468	+ 25,604
Net property	44,238	52,465	+ 8,227
Other assets	24,862	19,986	— 4,876
TOTAL ASSETS	$97,707	$145,674	+$47,967
LIABILITIES			
Notes payable	$ 4,500	$ 5,000	+$ 500
Accounts payable and accruals	3,989	14,171	+ 10,182
Reserve for taxes	607	3,400	+ 2,793
Other current liabilities	....	325	+ 325
TOTAL CURRENT LIABILITIES	9,096	22,896	+ 13,800
Minority interest	....	6	+ 6
Long term debt	....	4,800	+ 4,800
Reserves	6,234	14,161	+ 7,927
Capital	60,000	58,915	— 1,085
Surplus	22,377	44,896	+ 22,519
TOTAL LIABILITIES	$97,707	$145,674	+$47,967
WORKING CAPITAL	$19,511	$ 50,327	+$30,816
Current Ratio	3.1	3.2	+ .1

Ten Potential Market Leaders for 1948





SOUTHERN PACIFIC COMPANY

BUSINESS: Operates more than 12,500 miles of main track alone in Louisiana, Texas, New Mexico, Arizona, Nevada, California and Oregon, serving population well in excess of 20 million.

OUTLOOK: Although net earnings of this road in the past few years have been a good deal less than in several war years, they none the less appear to be leveling off above prewar figures, and a five year downtrend seems to be reversing. Compared with $1.89 per share earned in 1940, $6.81 for 1946 was quite impressive, though less so considering that this road earned $22.64 per share in 1942. For 10 months ended October 31, 1947, combined net earnings of the system were reported as $8.58 per share, indicating a substantial gain over the previous year. The entire territory served by this road is humming with postwar activity, the population is growing rapidly along with industrial expansion on a broad scale. Though passenger revenues are still declining, those from a wide assortment of freight items show an impressive gain, enough apparently to offset rising costs of operation. Further improvement should be achieved in 1948 when revenues reflect the latest advance in freight rates. Since the end of the war, Southern Pacific has been a leader in modernizing its equipment, having contracted for about $152 million worth of new diesel locomotives, passenger and freight cars in a little more than two years. Except during 1932, dividends have been paid without a break since 1905, at an annual rate of $4 per share for the last three years.

FINANCES: As of October 31, 1947, current assets of $107.4 million were higher by $14 million than on the same date in 1946, evidencing a strong financial status.

MARKET ACTION: Priced recently around 51, Southern Pacific shares yield nearly 8% with good prospects for stability in this respect. High for 1947 was just at this same level, compared with a low of 34½.

COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	1946 (000 omitted)	Change
ASSETS			
Cash	$ 32,746	$ 71,068	+$ 38,322
Temporary cash investments	....	24,500	+ 24,500
Receivables, net	18,220	41,296	+ 23,076
Inventories	14,276	31,255	+ 16,979
Other current assets	1,214	15,148	+ 13,934
TOTAL CURRENT ASSETS	66,456	183,267	+ 116,811
Plant and equipment	1,492,130	1,543,808	+ 51,678
Less depreciation	155,050	281,655	+ 126,605
Net property	1,337,080	1,262,153	— 74,927
Investments, net	136,347	145,496	+ 9,149
Other assets	22,462	33,486	+ 11,024
TOTAL ASSETS	$1,562,345	$1,624,402	+$ 62,057
LIABILITIES			
Notes and interest payable	$ 25,931	$ 4,249	—$ 21,682
Accounts payable and accruals	20,108	73,482	+ 53,374
Reserve for taxes	4,827	dr12,207	+dr17,034
Other current liabilities	961	15,215	+ 14,254
TOTAL CURRENT LIABILITIES	51,827	80,739	+ 28,912
Deferred liabilities	18,713	61,346	+ 42,633
Inter-company liabilities	68,237	55,932	— 12,305
Government grants	4,560	....	— 4,560
Long term debt	720,945	536,639	— 184,306
Reserves	454	31	— 423
Capital	383,582	383,582	....
Surplus	314,027	506,133	+ 192,106
TOTAL LIABILITIES	$1,562,345	$1,624,402	+$ 62,057
WORKING CAPITAL	$ 14,629	$ 102,528	+$ 87,899
Current Ratio	1.3	2.3	+ 1.0

MONSANTO CHEMICAL COMPANY

BUSINESS: Company produces a well diversified line of over 300 chemicals used by virtually every important industry in the country. Heavy chemicals furnish the bulk of dollar sales but the backlog of earnings comes from medicinals, fine chemicals, and coal tar intermediates.

OUTLOOK: A leading company in the constantly growing chemical industry, Monsanto is well on the road to establishing new production records. By continually introducing new products, by expanding its own facilities and acquiring others, the company has reached the enviable position where its 1947 sales are estimated at well over eight times 1929 volume. Recent expansions and acquisitions should enable the company to do even better this year. A temporary set-back to the expansion program was dealt the company by the destruction of its Texas plant in 1947, which it had acquired for $9,550,000. However, the plant was insured and is being rebuilt, with possible resumption of operations late this year. Although costs are increasing, higher selling prices and expanding volumes result in steadily increasing earnings. Exclusive of insurance recoverage, the company probably earned $4.00 a share in 1947, compared with $2.37 the previous year. Dividend payments this year will likely surpass the liberal payments of $2.00 made last year. With demand for chemical products continuing steadily at an uptrend, and with great potentialities in many of the company products, the stock appears to possess distinct growth possibilities.

FINANCES: Company's finances are invariably strong. Latest balance sheet shows cash items alone well above current liabilities. Stock was split two-for-one in 1934 and three-for-one in 1946, capitalizing the steady growth over the years.

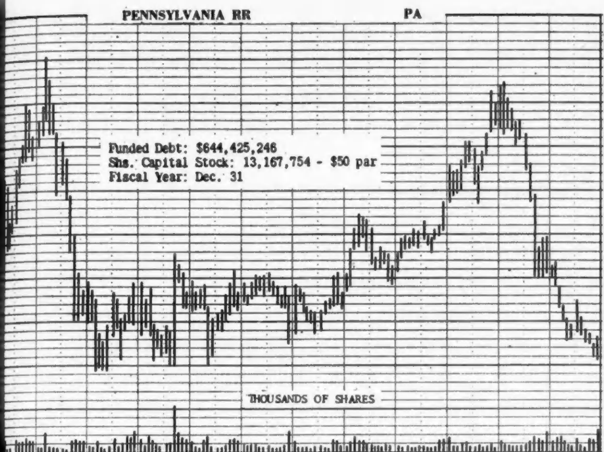
MARKET ACTION: Stock has done considerably better than the average market. Last year its range was as follows: High 63¾, low 49⅛. Recent price, 60.

COMPARATIVE BALANCE SHEET ITEMS

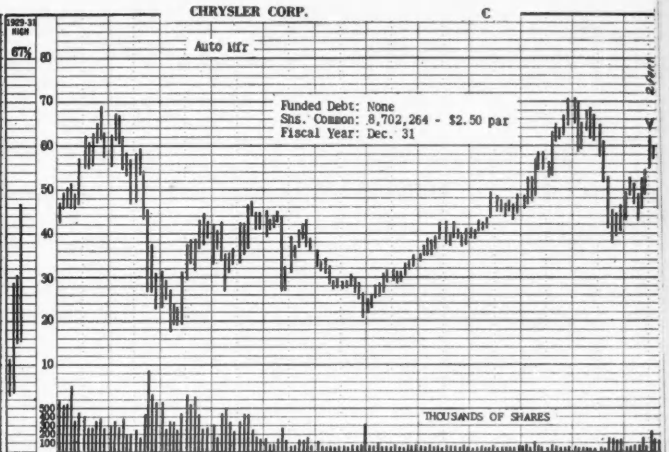
	Dec. 31, 1940	Sept. 30, 1947 (000 omitted)	Change
ASSETS			
Cash	$ 6,332	$ 12,645	+$ 6,313
U. S. Government securities	....	4,106	+ 4,106
Receivables, net	5,092	16,794	+ 11,702
Inventories	8,972	25,291	+ 16,319
TOTAL CURRENT ASSETS	20,396	58,836	+ 38,440
Plant and equipment	47,306	117,032	+ 69,726
Less depreciation	17,672	45,375	+ 27,703
Net property	29,634	71,657	+ 42,023
Other assets	4,201	10,687	+ 6,486
TOTAL ASSETS	$54,231	$141,180	+$86,949
LIABILITIES			
Notes payable	....	$ 429	+$ 429
Accounts payable and accruals	$ 3,156	11,870	+ 8,714
Reserve for taxes	4,100	480(a)	— 3,620
Other current liabilities	501	1,126	+ 625
TOTAL CURRENT LIABILITIES	7,757	13,905	+ 6,148
Deferred liabilities	———	5,678	+ 5,678
Minority interest	353	1,073	+ 720
Long term debt	———	30,000	+ 30,000
Reserves	2,940	5,868	+ 2,928
Capital	22,417	31,397	+ 8,980
Surplus	20,764	53,259	+ 32,495
TOTAL LIABILITIES	$54,231	$141,180	+$86,949
WORKING CAPITAL	$12,639	$ 44,931	+$32,292
Current Ratio	2.6	4.2	+ 1.6

(a)—After deducting $10.1 million U. S. Tax Notes.

Ten Potential Market Leaders for 1948



1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
2.94	2.07	.84	2.43	3.51	3.98	7.71	6.49	4.92	3.72	d .65	
2.00	1.25	.50	1.00	1.50	2.00	2.50	2.50	2.50	2.50	1.50	.50
169.3	73.9	62.0	74.0	73.0	70.7	101.9	93.5	113.1	156.2	108.5	75.6



YEARLY RANGE FROM 1932		1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
	EARN.	7.12	5.83	2.16	4.24	4.35	4.61	1.78	2.68	2.85	4.30	3.09	
	DIV.	6.00	5.00	1.00	2.50	2.75	3.00	1.75	1.50	1.50	1.50	1.50	2.87½
Wkg Cap $Mil		64.9	74.0	78.2	94.7	115.5	127.2	141.4	168.3	192.8	195.0	187.3	214.0

PENNSYLVANIA RAILROAD COMPANY

BUSINESS: This century old railroad operates about 10,600 miles of main track in a highly developed area that includes about 15% of the population of the entire country. The entire system, including associated lines, has a total trackage of about 28,200 miles.

OUTLOOK: Signs are becoming clearer that 1948 operations of this well managed carrier will show progressive improvement compared with discouraging resuts for the past two years. Though gross operating revenues of around $870 million reached a record peacetime high, an enormous increase in wage costs and other expenses in 1946 and 1947 left income insufficient to fully cover interest charges for the first time in a hundred years, despite rate rises granted by the ICC. The definite boost of 20% in freight rates granted, however, along with numerous economies effected by the management last year, should soon place the road again in the black and perhaps permanently so. While the management has as yet released no estimates, experts have figured that the rate improvement should benefit Pennsylvania R.R. to the extent of about $55 million. An additional rise in income from numerous investments in other roads, notably Norfolk & Western, is also in prospect. Since the deficit for 1946 amounted to only 13 cents per share on Pennsy common, or $6.7 million, it can be envisaged that an approaching turn for the better could readily wipe this out and more than cover the modest 50 cents per share dividend paid last year from earnings accumulated in prior periods. True, the deficit for 10 months to October 31, 1947 equalled 55 cents per share, but this was less than a comparable deficit of 68 cents per share in 1946.

FINANCES: As of October 31, 1947, working capital of $76 million compared with $117 million a year previous, excluding investments in non-affiliates that now total around $60 million.

MARKET ACTION: A recent price of 18¾ compared with a 1947 low of 15½; the shares sold as high as 26⅞ at one time in 1947 and in the previous year touched 47½.

COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	1946 (000 omitted)	Change
ASSETS			
Cash	$ 84,050	$ 35,294	—$ 48,756
Temporary cash investments	....	640	+ 640
Receivables, net	29,409	48,848	+ 19,439
Inventories	34,986	52,755	+ 17,769
Other current assets	3,649	108,306	+ 104,657
TOTAL CURRENT ASSETS	152,094	245,843	+ 93,749
Plant and equipment	1,398,968	1,651,137	+ 252,169
Less depreciation	358,936	627,923	+ 268,987
Net property	1,040,032	1,023,214	— 16,818
Investments	711,686	728,360	+ 16,674
Other assets	133,393	182,932	+ 49,539
TOTAL ASSETS	$2,037,205	$2,180,349	+$143,144
LIABILITIES			
Notes and interest payable	$ 7,273	$ 7,035	—$ 238
Accounts payable and accruals	36,296	80,765	+ 44,469
Reserve for taxes	20,961	34,906	+ 13,945
Other current liabilities	14,566	14,641	+ 75
TOTAL CURRENT LIABILITIES	79,096	137,347	+ 58,251
Deferred liabilities	22,210	11,673	— 10,537
Long term debt	690,759	630,777	— 59,982
Reserves	111,012	121,079	+ 10,067
Capital	658,387	658,387	....
Surplus	475,741	621,086	+ 145,345
TOTAL LIABILITIES	$2,037,205	$2,180,349	+$143,144
WORKING CAPITAL	$ 72,998	$ 108,496	+$ 35,498
Current Ratio	1.9	1.8	— .1

CHRYSLER CORPORATION

BUSINESS: Company is the second largest producer of cars and third largest producer of trucks. Its Airtemp Division turns out a complete line of air condition, commercial refrigeration, and heating equipment.

OUTLOOK: With a large deferred demand for automobiles and with ample purchasing power in the hands of an eager public, Chrysler is facing unusually bright prospects. Although production of cars and trucks last year topped the four and a half million mark, the demand is still far from satisfied. Lack of steel is the main drawback to all-out production, but this is a situation that is gradually improving. With an excellent record behind it since it was first organized in 1925, Chrysler demonstrkated its earning power by lifting sales for the first nine months of 1947 to an all-time record level. Higher prices for cars contributed materially to this showing. Costs also rose; but wider profit margins on greater volumes produced excellent results. Earnings for the full year are estimated to have reached a new peak of $7.50 a share, compared with $6.18 in 1946. This year will likely see the automobile industry hit its full stride as the supply of materials becomes more abundant. Output may well exceed the record of 5,358,420 units produced in 1929. Demand should hold up well during the next few years. Chrysler's recently increased quarterly dividend of $1.00 a share should be at least maintained and may possibly be raised. Stock has considerable appeal for the good yield and bright appreciation prospects.

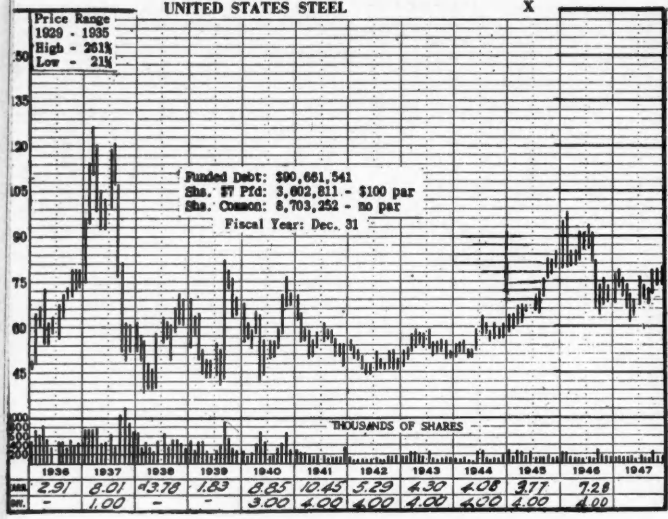
FINANCES: With no funded debt and with only common stock outstanding, company's finances are strong. Adequate reserves have been set up. Latest balance sheet showed cash items alone exceeding total current liabilities. Last year the stock was split two-for-one.

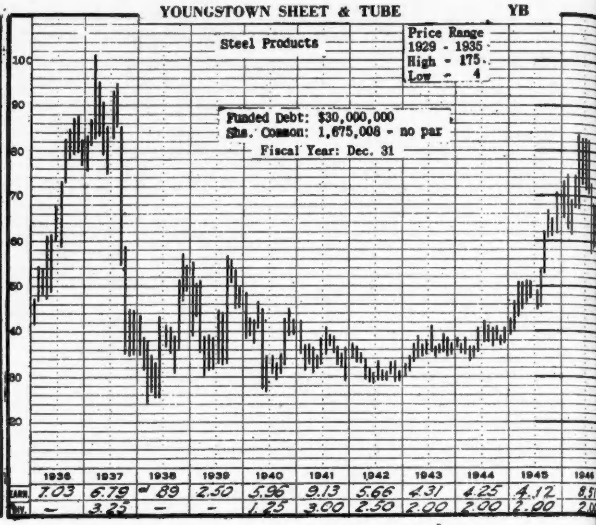
MARKET ACTION: More volatile than General Motors, Chrysler was one of the leaders in last year's indecisive market. Price range was: High 66⅞, low 56⅛. Current price is approximately 62.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1940	Sept. 30, 1947 (000 omitted)	Change
ASSETS			
Cash	$109,063	$145,607	+$ 36,544
Marketable securities	8 085	55,287	+ 47,202
Receivables, net	18,058	39,342	+ 21,284
Inventories	59,200	113,224	+ 54,024
Other current assets	....	223	+ 223
TOTAL CURRENT ASSETS	194,406	353,683	+ 159,277
Plant and equipment	109,922	150,591	+ 40,669
Less depreciation	46,520	58,478	+ 11,958
Net property	63,402	92,113	+ 28,711
Other assets	9,821	8,335	— 1,486
TOTAL ASSETS	$267,629	$454,131	+$186,502
LIABILITIES			
Accounts payable and accruals	$ 55,344	$ 89,456	+$ 34,112
Reserve for taxes	23,500	46,147	+ 22,647
Operating reserve	....	4,060	+ 4,060
TOTAL CURRENT LIABILITIES	78,844	139,663	+ 60,819
Reserves	25,402	....	— 25,402
Capital	21,756	21,756	....
Surplus	141,627	292,712	+ 151,085
TOTAL LIABILITIES	$267,629	$454,131	+$186,502
WORKING CAPITAL	$115,562	$214,020	+$ 98,458
Current Ratio	2.5	2.5	....

Ten Potential Market Leaders for 1948





UNITED STATES STEEL CORPORATON

BUSINESS: This is the largest producer of iron and steel in the world, operating about 35% of total domestic capacity. Operations are completely integrated and extend over a vast area, with large raw material reserves and extensive outlets.

OUTLOOK: Although the production of steel is soaring to all-time peaks, so great is the industrial demand for practically all kinds of steel products that it will be many months, if not years, before all customers are satisfied. The secular growth of the country, temporarily halted during the depression and diverted during the war, is finally exerting its pressure upon our industrial economy. Industries the length and breadth of the land are rushing to fill our expanded requirements. Since steel is the backbone of our industrial structure, demand for it has been insatiable, and bids fair to continue so for some time ahead. All of which presents Big Steel with very glowing prospects. Shortage of certain materials has prevented the company from reaching full earning power, but this situation is gradually improving. Company is following a policy of judicious expansion, large scale improvement of facilities, and aggressive merchandising. This program is bearing fruit. Earnings for last year are indicated at better than $12.00 a share, compared with $7.28 in 1946. Dividends this year should exceed the $5.00 paid last year. With no signs of abatement in the strong demand for steel, and with a substantial need for steel exports under the Marshall Plan, the common stock of this company appears exceptionally attractive for its good yield and speculative appreciation prospects.

FINANCES: As befits the leader in this important industry, company's finances are strong. Latest balance sheet showed cash alone 30% greater than total current liabilities. Company's reserves appear adequate.

MARKET ACTION: Company is generally the bellwhether in the steel group. Last year's price range was a high of 80 and a low of 61⅝. Current price is approximately 77.

COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	1946 (000 omitted)	Change
ASSETS			
Cash	$ 215,048	$ 222,048	+$ 7,000
Marketable securities	36	311,320	+ 311,284
Receivables, net	110,565	137,875	+ 27,310
Inventories	308,985	283,396	— 25,589
TOTAL CURRENT ASSETS	634,634	954,639	+ 320,005
Plant and equipment	2,345,915	2,568,247	+ 222,332
Less depreciation	1,235,743	1,741,374	+ 505,631
Net property	1,110,172	826,873	— 283,299
Other assets	109,779	222,005	+ 112,226
TOTAL ASSETS	$1,854,585	$2,003,517	+$148,932
LIABILITIES			
Notes and interest payable	$ 13,690	$ 6,324	—$ 7,366
Accounts payable and accruals	85,329	200,739	+ 115,410
Reserve for taxes	62,011	118,497	+ 56,486
Other current liabilities	2,274	———	— 2,274
TOTAL CURRENT LIABILITIES	163,304	325,560	+ 162,256
Deferred liabilities	5,163	———	— 5,163
Minority interest	5,250	———	— 5,250
Liab. for defense conts., dep., contra	45,198	———	— 45,198
Long term debt	191,696	81,197	— 110,499
Reserves	86,987	142,186	+ 55,199
Capital	1,013,025	1,013,025	———
Surplus	343,962	441,549	+ 97,587
TOTAL LIABILITIES	$1,854,585	$2,003,517	+$148,932
WORKING CAPITAL	$ 471,330	$ 629,079	+$157,749
Current Ratio	3.9	2.9	— 1.0

YOUNGSTOWN SHEET & TUBE COMPANY

BUSINESS: Company ranks as the sixth largest producer of steel, with an annual capacity of 3.45 million tons of pig iron and 4 million tons of steel ingots. Tubular products, sheets, tin plate, bars and wire are included in its output.

OUTLOOK: In common with the other leading steel producers, Youngstown's potentials for satisfactory results during 1948 are above average bright. Granted no strikes hamper progress this year in the company's mines and mills, full capacity operations appear assured. As Youngstown specializes substantially in the manufacture of steel tubing of all kinds, an item currently in huge demand, its position is strong. The same thing applies to its output of sheets, so eagerly sought by automobile producers and other makers of durables. Operations are facilitated by ownership of large coal and iron ore mines to effect integration. Net sales of $74 million for the first nine months of 1947 were up about 17% compared with 1946, and net earnings of $9.82 per share for the period showed a gain of around 80% after large allowances for new construction charged to income. Youngstown is expanding its facilities considerably through construction of new coke ovens and enlargement of its blast furnaces, as well as by purchases of additional coal mining properties. Though operations of this concern in prewar were not uniformly satisfactory, for the past eight years they have produced good profits and should continue to do so in the foreseeable future.

FINANCES: The December 31, 1946, balance sheet of the company revealed an impregnable financial position, with holdings of cash and Government bonds alone totalling $70.5 million against current liabilities of $23 million. The 1947 uptrend in earnings warranted declaration of a $1 per share yearend extra, bringing the total dividends to $5.

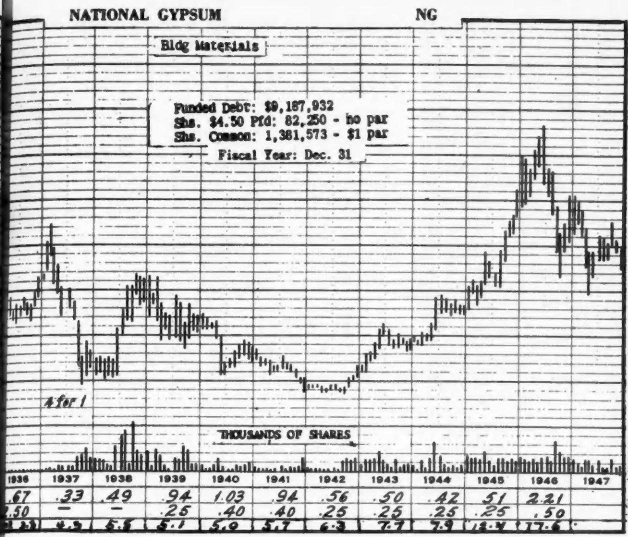
MARKET ACTION: Recent price of 78 compares with a 1947 high of 83 and a low of 53¾. On basis of 1947 distributions, the current yield is 6.4%.

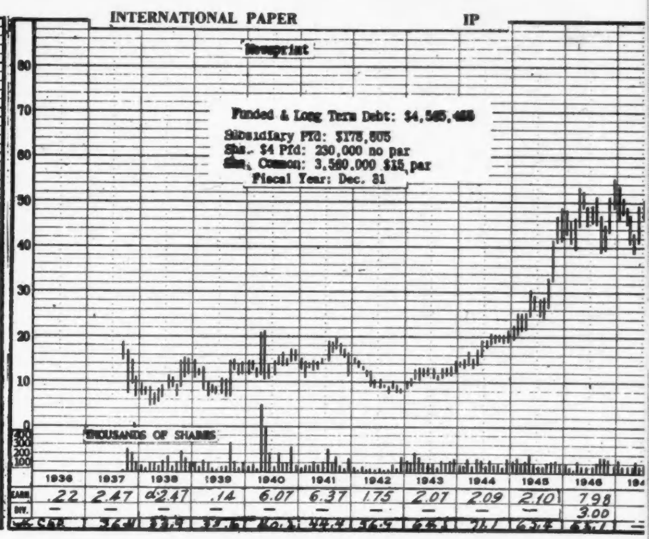
COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	1946 (000 omitted)	Change
ASSETS			
Cash	$ 21,872	$ 50,509	+$28,637
U. S. Government securities	122	20,152	+ 20,030
Receivables, net	25,089	20,119	— 4,970
Inventories	48,434	42,042	— 6,392
TOTAL CURRENT ASSETS	95,517	132,822	+ 37,305
Plant and equipment	275,413	292,553	+ 17,140
Less depreciation	134,496	201,924	+ 67,428
Net property	140,917	90,629	— 50,288
Other assets	14,805	11,191	— 3,614
TOTAL ASSETS	$251,239	$234,642	—$16,597
LIABILITIES			
Notes and interest payable	$ 3,588	$ 412	—$ 3,176
Accounts payable and accruals	9,369	19,744	+ 10,375
Reserve for taxes	4,182	2,667*	— 1,515
Other current liabilities	———	183	+ 183
TOTAL CURRENT LIABILITIES	17,139	23,006	+ 5,867
Minority interest	19	32	+ 13
Long term debt	82,500	30,000	— 52,500
Reserves	4,468	12,303	+ 7,835
Capital	120,088	105,088	— 15,000
Surplus	27,025	64,213	+ 37,188
TOTAL LIABILITIES	$251,239	$234,642	—$16,597
WORKING CAPITAL	$ 78,378	$109,816	+$31,438
Current Ratio	5.6	5.8	+ .2

*—After deducting $10.2 million U. S. Treasury Tax Notes

Ten Potential Market Leaders for 1948





NATIONAL GYPSUM COMPANY

BUSINESS: Company is next to the largest producer of gypsum building materials, with its output additionally including metal lath and lime. Operations are conducted in more than two dozen locations in the United States and Canada.

OUTLOOK: The countrywide boom in construction activities, seemimgly to continue for a number of years to come, has brought record volume and earnings to this strongly entrenched concern. Sales of $38 million in 1946 were 57% above those of any prewar year and volume reached $37 million during the first nine months of 1947. Operations have been maintained on a profitable basis even in depression years such as those of the early 1930s when volume was hardly more than $2 million annually, though for a number of years preferred dividends were not fully covered. National Gypsum's business is both highly mechanized and well integrated. Ownership of large deposits of gypsum rock in both the United States and Canada assures ample supply or raw material, while the company's plants turn out most of its own paper filler requirements, as well as rock wool. A new plant in Virginia, of ultra-modern construction, has started to produce high calcium and hydrated lime products, in wide demand for soil conditioning, animal feeds and insecticides. The uptrend in volume has resulted in satisfactory profit margins, as shown by net earnings equal to $2.04 per share for nine months of 1947 against $2.21 for all of 1947. Dividends heve been held on a conservative basis through distribution of 50 cents per share in 1946 and 75 cents during 1947.

FINANCES: To finance its expanding business, National Gypsum has borrowed a total of $15 million on two issues of low rate serial notes. The current ratio of almost 6 to 1 as of December 31, 1946 indicated a sound position.

MARKET ACTION: At a recent price of 19, National Gypsum shares compare with a 1947 high of 25½ and a low of 14⅝. In 1946 an all time peak price of 33¼ was attained when earnings and prospects were less favorable than at present.

COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	1946 (000 omitted)	Change
ASSETS			
Cash	$ 1,464	$ 1,892	+$ 428
Marketable securities	....	10,815	+ 10,815
Receivables, net	2,480	3,446	+ 966
Inventories	2,748	5,211	+ 2,463
TOTAL CURRENT ASSETS	6,692	21,364	+ 14,672
Plant and equipment	15,501	28,695	+ 13,194
Less depreciation	2,276	7,798	+ 5,522
Net property	13,225	20,897	+ 7,672
Other assets	978	889	— 89
TOTAL ASSETS	$20,895	$43,150	+$22,255
LIABILITIES			
Accounts payable and accruals	$ 643	$ 2,470	+$ 1,827
Reserve for taxes	510	204(a)	— 306
Other current liabilities	484	1,059	+ 575
TOTAL CURRENT LIABILITIES	1,637	3,733	+ 2,096
Long term debt	5,774	10,183	+ 4,409
Reserves	150	262	+ 112
Capital	7,416	9,882	+ 2,466
Surplus	5,918	19,090	+ 13,172
TOTAL LIABILITIES	$20,895	$43,150	+$22,255
WORKING CAPITAL	$ 5,055	$17,631	+$12,576
Current Ratio	4.1	5.7	+ 1.6

(a)—After deducting $2.4 million U. S. Treasury Tax Notes.

INTERNATIONAL PAPER COMPANY

BUSINESS: International Paper is the largest integrated paper making company in the world. It produces a wide variety of products, from kraft paper and paperboard, pulp, and newsprint to book and bond paper, grocery bags, and containers.

OUTLOOK: Enjoying the best earnings in history, International Paper has achieved an impressive record in setting its finances in order. Not only have all bonds and notes been retired but the large amounts of high dividend paying preferred stocks have been replaced by a small issue of new low dividend paying preferred. New uses and developments indicate a long-term uptrend in paper consumption. Well-controlled costs, higher prices, and large volumes in all divisions blended effectively in 1947, with the result that company's earnings were boosted to an estimated $13.00 a share for the year, compared with $7.98 in 1946. A further expansion of facilities may lift earnings even higher in the near future. The quarterly dividend of $0.75 a share may be increased or again supplemented by extras this year. Good yield and attractive long-term appreciation possibilities impart a considerable measure of speculative appeal to the stock.

FINANCES: Current position of the company is strong. Ample reserves have been set up. Company has an imposing surplus. There are only 230,000 shares of $4.00 Cumulative Preferred Stock ahead of the Common Stock.

MARKET ACTION: Stock is generally more volatile than others in the paper industry. Range in 1947 was: high 59⅜—low 38¾. Current price is approximately 53.

COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	1946 (000 omitted)	Change
ASSETS			
Cash	$ 18,032	$ 22,800	+$ 4,768
Marketable securities	....	2,984	+ 2,984
Receivables, net	14,337	19,628	+ 5,291
Inventories	30,758	43,103	+ 12,345
TOTAL CURRENT ASSETS	63,127	88,515	+ 25,388
Plant and equipment	222,992	258,137	+ 35,145
Less depreciation	65,870	123,908	+ 58,038
Net property	157,122	134,229	— 22,893
Other assets	10,868	29,789	+ 18,921
TOTAL ASSETS	$231,117	$252,533	+$21,416
LIABILITIES			
Notes and interest payable	$ 6,200	$ 2,265	—$ 3,935
Accounts payable and accruals	7,907	16,035	+ 8,128
Reserve for taxes	8,806	7,126(a)	— 1,680
TOTAL CURRENT LIABILITIES	22,913	25,426	+ 2,513
Minority interest	1,522	179	— 1,343
Long term debt	52,072	18,120	— 33,952
Reserves	2,370	20,274	+ 17,904
Capital	119,942	116,830	— 3,112
Surplus	32,298	71,704	+ 39,406
TOTAL LIABILITIES	$231,117	$252,533	+$21,416
WORKING CAPITAL	$ 40,214	$ 63,089	+$22,875
Current Ratio	2.7	3.5	+ .8

(a)—After deducting $16.5 million U. S. Tax Notes.

Photo by DuPont

THE duPont company

—UNDER INVESTMENT MICROSCOPE

By STANLEY DEVLIN

Despite the multiplicity of its new products and regardless of its ever extending research activities, one cannot but feel that the future growth of the duPont Company, already the largest chemical producer in the world, may henceforth proceed at a somewhat slower pace than in the past. It is, one must concede, no easy task to make conclusive demonstration of this opinion. Even should it seem conclusively demonstrable, there is always the possibility of some new, startling, and commercially feasible discovery such as nylon, to upset one's calculations. But the feeling persists that strong, competent and virile as the company is, it has grown up. It has matured.

It would be remarkable were this not so. No company can continue to grow indefinitely. At some point the optimum is reached. Such, at least, is the classical concept, a concept which has not yet met disproof. One could, of course, have claimed at any point in duPont's growth that this maturity was at hand.

And one would have been wrong. In 1937 net sales were $286 million and earnings better than $7 per share. Net operating income was $56,423,000 compared with $10,354,000 in 1932. One could then have said that so phenomenal a rise in operating income constituted the maximum that the company could hope to achieve in the economic environmen in which it had to operate. One would indeed have been wrong, for, recognizing the limitations of that economic environment, the company embarked upon such basic research activities as led it into brand new products and markets. So much so that during the first nine months of 1947, operating profits exceeded $121 million, based on sales of approximately $582,774,000.

Nevertheless, it would be contrary to the entire history of our economy for duPont to continue to grow in future years as rapidly as it has in the past. One could go further and say that from present indications it would seem doubtful whether such growth would not meet obstacles. Without troubling to define what constitutes a trust, politicians of all creeds regard the largest aggregations of capital as fair game. Among other factors, this one is striking hard at duPont today.

The Department of Justice, during recent weeks, has charged E. I. duPont de Nemours, with "monopolizing the cellophane industry." The Government alleges that "duPont acquired and supported its monopoly through various cartel agreements, allocating world markets between it and leading foreign cellophane manufacturers and providing for the exclusive interchange of technical information between duPont and its co-conspirators."

Company's Rebuttal

The company replies: "Ever since it was first produced by duPont in this country in 1923, cellophane has had to fight for acceptance against the competition of metal foils, waxed paper, and other plastic film. By granting licenses under its patent to other American producers of cellophane, duPont has made it possible for its competitors to expand. In the course of establishing the present position of this product in the market, duPont has greatly improved its quality, has created jobs through increased production, and has made twenty-one price reductions from the original price of $2.65 per pound to the current price of 42c a pound . . . the field is open for anyone who is willing to risk the large plant investment which this business requires."

Obviously, duPont could continue to grow even if the Government were to win this anti-trust suit. Important as cellophane might be to duPont, its sales in 1946 were less than 7 percent of total company sales. Competitors could be quadrupled without seriously affecting duPont's earning power. But the significance of the suit is not proportionate to the importance of the product but to the importance of the principle involved. For Attorney General Clark has stated, "For many years duPont's cellophane plants have produced in excess of two thirds of all of this commodity used in this country. This illegal monopoly power stifles free enterprise and should be eliminated." The proposed remedy: To require the company to sell "such of its plants as may be necessary to permit others to enter the cellophane field."

The Patent Situation

It may be significant that the expiration of duPont's original commercially practicable patents on cellophane came only shortly before the outbreak of war. Aware that anti-trust suits were for the most part suspended during the emergency, one is compelled to wonder what, if the company should lose this suit, may happen to duPont's dominant position in, say, nylon, when its major patents on this product expire. Would it again have to face prosecution for "monopolizing" a product developed by the genius of its own chemistry; a chemistry which itself is a product of the organizational genius of the duPonts?

This is no light matter. Even the most cursory examination of the duPont organization shows us how finely articulated it has become, how intent it is upon both applied and basic research and how determined to seek out and develop new products capable of mass sale. It is calculated that well over half of these sales now consist of items developed by the company since 1928. If the more significant among these items should, precisely because of patent protection, come to be regarded as dangerous semi-monopolies, much of the worth of the company's research programs could be negated. Not only the investor but the Department of Justice, also, had better weigh this fact carefully!

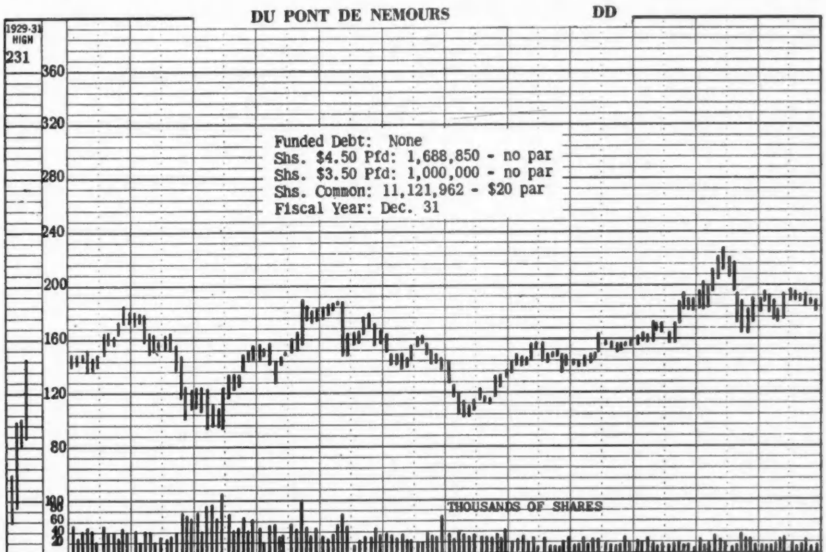
The company's astonishing success is the simple fruit of its organization which, a combination of both the vertical and the horizontal, has earned the name of "line and staff" system. Itself a duPont development, the organizational system is such that each of the principal operating departments is headed by a separate general manager who exercises full power and has full responsibility within his division. These departments: Fabrics and Finishes, Organic Chemicals, Rayon and Cellophane, etc., are coordinated by the activities of general administrative departments which, controlling policy in such fields as advertising, engineering, purchasing, etc., consolidate the activities of the operating divisions and produce a coordinated operation comparable in spirit to that of General Motors. This is no surprising fact, since General Motors itself is 23 percent controlled by duPont and took on its present shape under duPont direction.

The smooth functioning of the organization is an expression not only of its form but of the individuals who evolved it. The duPonts have had the wit to see that the modern corporation requires a combination of rigid central control and extreme flexibility within the divisions. One might say that the central control is merely strategic, although absolute within that sphere, and the divisional flexibility amounts to operative autonomy. The goals are established at the

Comparative Balance Sheet Items

ASSETS	Dec. 31, 1940	June 30, 1947 (000 omitted)	Change
Cash	$120,280	$ 225,809	+$105,529
Marketable securities	19,979	———	— 19,979
Receivables, net	40,244	68,427	+ 28,183
Inventories	62,379	125,088	+ 62,709
TOTAL CURRENT ASSETS	242,882	419,324	+ 176,442
Plant and equipment	410,779	633,467	+ 222,688
Less depreciation	133,580	312,328	+ 178,748
Net property	277,199	321,139	+ 43,940
Investments	242,670	295,615	+ 52,945
Other assets	38,560	43,331	+ 4,771
TOTAL ASSETS	$801,311	$1,079,407	+$278,098
LIABILITIES			
Accounts payable and accruals	$ 43,397	$ 61,562	+$ 18,165
Reserve for taxes	51,089	2,741*	— 48,348
TOTAL CURRENT LIABILITIES	94,486	64,303	— 30,183
Reserves	52,370	94,776	+ 42,406
Capital	390,200	491,325	+ 101,125
Surplus	264,255	429,005	+ 164,750
TOTAL LIABILITIES	$801,311	$1,079,409	+$278,098
WORING CAPITAL	$148,396	$ 355,021	+$206,625
Current Ratio	2.6	6.5	+ 3.9

*—After deducting $91.1 million U. S. Treasury Tax Notes.



YEARLY RANGE FROM 1932		1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
	EARN.	7.53	7.25	3.74	7.65	7.17	7.44	5.07	5.59	6.60	6.29	9.44	
	DIV.	6.10	6.25	3.25	7.00	7.00	7.00	4.25	4.25	5.25	5.25	7.00	8.00
Wkg Cap. $ mil.		122.8	155.5	161.5	162.2	148.4	149.8	173.1	202.7	227.6	284.8	260.4	355.0

center, the general staff supervises their pursuit, and the division heads implement them in practice. The result is a controlled yet flexible organization surpassing in efficiency anything known elsewhere in the field either of business or of government. It is, however, an organizational form not capable of indefinite extension nor even able to be modified substantially without serious upset to its fine balance.

One may asume that in the future as in the past, duPont will be characterized by extreme financial conservatism. This conservatism is leading momentarily to certain misunderstandings. One constantly meets the assertion that duPont's net during the September quarter of 1947 was off, despite record business. It is asserted that net per quarter earnings declined to $2.14 a share from $2.21 in the same period in 1946, despite the fact that sales were up by better than $30 million.

Two comments must be made: One is that depreciation and obsolescence provisions, which amounted to approximately $8,700,000 in the September quarter of 1947, were up by $2 million from those of the year before; the second, that a special provision for excessive construction costs, amounting to $4,700,000, was established. In part, these deductions were offset by an increase of $2,500,000 in duPont's income from its 10 million share investment in General Motors, leaving an abnormal quarterly net increase in costs of $4,200,000.

For the first nine months of 1947 this unusual and abnormal increase in "costs" amounted to $15,700,000, or better than $1.40 per share. Had this been brought down to net, nine months' earnings would have been reported at $8.67 per share, compared with the actual figure of $7.27. It may be argued that a provision for excessive construction costs of $15,200,000 is well warranted. One would hesitate to disagree.

What is of importance is that through this provision the company demonstrates its disbelief in the soundness of the present state of construction costs and of the prices of capital goods in general. It has therefore deducted the excess over what it considers normal costs instead of, as most of its competitors are doing, leaving those deductions to be levied against future years after the expected price break has occurred.

Consequently, comparisons between duPont's current earnings and those of its competitors are grossly unfair unless this fact is taken into account. DuPont may show up disadvantageously on a comparative basis unless this adjustment is made mentally. On the other hand, in future years when heavy write-downs may occur in the property of competitors, unadjusted comparison could be equally disadvantageous to those who take their "licking" belatedly.

There is further significance in this accounting procedure. By its history duPont has shown itself to be characterized by organizational genius, extreme practicability in both chemical and market research, and capable of dislodging so strongly entrenched a fibre as silk from common usage. Now it shows itself to be aware of the unhealthily inflated condition of the economy, to be distrustful of profit figures as conventionally reported, and to be willing to do something about it immediately. Even though all it can do is to adopt a bookkeeping device, this device, by eliminating fictitious profits today, undoubtedly will aid in stabilizing the company's earnings in future years.

One must therefore offset the question of possible future competition in lines developed by the company with the hard common sense so characteristic of all its operations. If it should be true that its major growth phase may be over, it is likewise true that perhaps no other company is so capable of conducting stable operation as is duPont.

This must not be taken to mean that future earnings of $10 per share, the apparent current annual rate, can be expected in most future years. DuPont's various textile operations now constitute so important a part of its sales dollar that over-all earnings are bound to be subject to the future gyrations of the

Industrial Departments of E. I. DuPont in Order of Importance

1. Synthetic fibers.
2. Organic chemicals.
3. Explosives.
4. Fabrics and finishes.
5. Ammonia and ammonia products.
6. Acids, inorganic heavy chemicals, etc.
7. Electrochemicals, industrial chemicals, etc.
8. Plastics.
9. Pigments.
10. Photo products.

Long Term Operating and Earnings Record

	Net Sales (000 omitted)	Sales Per Share	Operating Margin	Net Income (000 omitted)	Net Profit Margin	Net Per Share	Dividend Per Share	Price Range
For 9 months ended September 30, 1947	$582,773	$52.50	20.8%	$88,220	15.1%	$7.41	$8.00(a)	197 -173(b)
Years 1946	661,824	59.50	21.6	112,619	17.0	9.44	7.00	227 -161
1945	631,575	56.60	19.4	77,521	12.3	6.29	5.25	192½-155
1944	646,168	58.40	24.7	80,870	12.5	6.60	5.25	162½-137
1943	612,939	55.20	26.7	69,706	11.4	5.59	4.25	159¼-134
1942	523,463	47.10	29.6	63,941	12.2	5.07	4.25	144 -102¾
1941	503,352	45.30	31.3	90,401	18.0	7.44	7.00	164¾-136¼
1940	359,055	32.40	28.8	86,945	24.2	7.17	7.00	189¼-146½
1939	298,833	26.90	22.4	93,218	31.1	7.65	7.00	188½-126¼
1938	235,409	21.20	15.6	50,190	21.2	3.74	3.25	154¾- 90½
1937	286,043	25.80	19.5	88,031	30.7	7.25	6.25	180⅛- 98
10 Year Average, 1937-1946	$475,866	$42.84	24.0%	$81,344	19.1%	$6.62	$5.65	227 - 90½
4 Year Average, 1937-1940	$294,835	$26.57	21.6%	$79,596	26.8%	$6.45	$5.88	189¼- 90½

(a)—Paid for complete 1947 year. (b)—Through January 5, 1948.

textile market. Nylon and rayons would be indeed fortunate if they could continue to command their present prices, should there be a serious decline in the prices of silk, wool, and cotton.

In fact, one must expect at some future time a rapid and perhaps serious decline in textile prices in general, including the wholesale price paid to duPont for its yarns. Similiarly, the company's paint and lacquer divisions, and its heavy chemicals, have little reason to hope that they will be immunized against price breaks should deflation overtake building and heavy industry. In past years of deflation, duPont has shown itself vulnerable along with others to changes in the nation's price structure. It may be that its now heavy emphasis upon synthetic yarns has increased the vulnerability. One simply cannot foretell.

Photo by DuPont

Inspecting finished nylon ready for use as bristles in tooth, hair and industrial brushes

With the exception of duPont's partial dependence upon a sustained price for textile yarns—and it is significant that the company recently posted a 10 percent increase in its prices for rayon filament and staple yarn—the foregoing unstabilizing factors would equally affect all other chemical companies and indeed, industry in general. They are not something peculiar to duPont. DuPont is not especially vulnerable.

The discerning investor, as a matter of fact, will be keenly aware that duPont's last annual statement offered the most comfortable possible of all cushions against a decline in equity. For duPont's holdings in General Motors were, as is duPont's custom, carried on book at a figure closely approximating General Motors' reported book value which itself was something of an understatement. This asset was reported by duPont at $264 million while the 1947 year end market on 10 milion shares of General Motors stock was $582,500,000, or a difference in equity value per common share of duPont of almost $29.

Value of General Motors Holdings

Although the duPont Company has no intention of marketing its holdings in General Motors, it must be borne in mind that these holdings today, on market, are worth almost $53 per share of duPont comon. Over the years, the growth in book value of General Motors has added over $201 million to the surplus account of duPont.

Even if both duPont and General Motors have already attained something close to their maximum probable size as business enterprises, the earning power of duPont and its share in the earning power of General Motors would warrant the opinion that continued equity growth of an investment in duPont would be no less in the future than in the past.

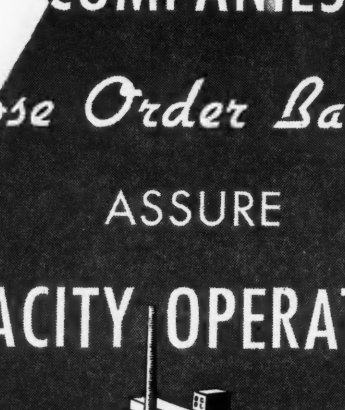
That earning power is by no means likely to shrink over the nearer term but may well increase would not at all surprise in view of the company's postwar expansion of facilities. The company's original construction program embraced 35 projects, calling for greatly enlarged research facilities and additional capacity for the manufacture of nylon intermediates and yarn, cellophane, rayon, plastics, photographic film and papers, seed disinfectants, animal remedies and pigments. In pursuit of this, about $220 million was spent in the two years 1945 and 1946, and construction is still progressing. In spite of these large outlays, working capital held up fairly well, but last year the company finally had recourse to the capital market and sold $100 million new preferred.

DuPont comes nearer to being a complete cross section of the chemical industry than any other company, except that it does not manufacture cutting gases for sale. It is estimated that present distribution ac-according to client industries, is about as follows: 27% to textiles, 23% miscellaneous, 14% paper and wrapping, 7% chemical, 5½% automotive, 4% each to construction, mining, export and sporting and military powders, 3% each to steel and agriculture, and 1½% to petroleum.

Comparative Record of Sales and Profit Margins

	1937		1941		1946		Estimated 1947	% Increase
	Net Sales ($ Million)	Operating Margin	Net Sales ($ Million)	Operating Margin	Net Sales ($ Million)	Operating Margin	Net Sales ($ Million)	1937-1947 Net Sales
DuPont, E. I.	$286.0	19.5%	$503.3	31.3%	$661.8	21.6%	$780.0	173.0%
Allied Chemical & Dye	177.2	14.5	247.9	18.5	280.5	14.8	340.0	94.5
Union Carbide & Carbon	169.1	29.4	317.8	28.4	415.0	21.4	510.0	201.0

COMPANIES *Whose Order Backlogs* ASSURE CAPACITY OPERATIONS



By GEORGE L. MERTON

As the new year opens upon the wide panorama of our constantly expanding industrial production, it reveals many changes that the closing year brought about. The year 1947 saw the placing into operation of more and more factories and plants to turn out an increasing supply of the goods necessary to maintain our superior standard of living. In some industries, mostly in the non-durable field, the supply became ample enough to meet most requirements. But for certain other industries, mostly in the durable field, the last year was merely one of intense, though inconclusive effort towards supply-demand balance.

Why Backlogs Are Large

In spite of constantly increasing production, most of these industries still have enormous order backlogs. While they have done an excellent job in turning out their products in record or near-record productions, shortages still persist. There are many reasons for this. One is the inadequate expansion and renovation of our industrial facilities during the depression. Another, the disruption caused by the war and the resultant accumulation of huge deferred demands. But since every disequilibrium brings about its own corrective measures, American industry is rising admirably to fulfill its task. By replacing worn-out facilities and building new ones, and by vigorous expansion wherever such appears necessary, industry has gone all-out to make up for the deficiencies of the past. Under a free economy, whenever a need exists, it will be filled.

The substantial backlog of orders that many companies have today are not only a source of great comfort to the stockholders but also assurance of general good business ahead. Unlike the backlogs of a year ago or so, when purchasing agents were hurrying helter-skelter placing duplicate orders whereever they could, most orders today are firm. There is ample purchasing power in the hands of the eager buyers, whose orders, moreover, not only reflect urgent requirements but have been placed in line with well-considered long range plans that will not easily be upset.

How long will the current backlogs last? With many industries still pleading for supplies, demand for steel should be well sustained throughout 1948 and possibly 1949. Considering the urgent need of the railroads for cars and locomotives, after the deferment of purchases caused by the depression and the war, the manufacturers of railroad equipment can view the next few years with a good measure of satisfaction.

Never in history have the farmers enjoyed the wealth of recent years, a goodly portion of which will be eagerly transmuted into machinery to ease the farmer's arduous lot. Contemplating this, manufacturers of farm equipment should have nothing to worry about business during the next few years. As for other industries, such as construction, machinery, and electrical equipment, the long-accumulated demands are still clamoring to be filled. These large backlogs are not of a transitory nature, reflecting temporary boom conditions. They are an indication of the permanent needs of our expanded industrial economy.

In the sixty year period from 1869 through 1928, this country increased its production at an average annual rate of 3.8%—a record unequalled by any other nation in the world's history. The period from 1929 through 1938 was the first decade in our history when we failed to reach a new high in industrial production. Although the next decade saw the production of goods at an unprecedented rate, the great bulk of it was for war use. Thus we have two decades of production and expansion to make up.

Following are brief comments on some of the companies with large backlogs that should assure a high rate of operations during the year ahead:

ALLIS-CHALMERS, a leading manufacturer of farm equipment, electrical and heavy industrial machinery, had a healthy backlog of $160,000,000 as of September 30, 1947. This is exclusive of tractors, which normally account for 50% of sales. Company has fully recovered from the costly strike of 1946; at present all plants are in operation and turning out goods at a steadily increasing pace. The

company enjoys a strategic position that augurs well for its future; not only are costs under control but there is also an absence of destructive trade and pricing practices in this field. Higher selling prices and improving profit margins should boost earnings substantially. Last year's earnings may have reached $2.00 a share, compared with a deficit in the previous year. Needs for increased working capital may compel a conservative dividend policy, but there is a good chance that the $0.40 quarterly dividend may be raised. The stock has considerable long term appeal.

BABCOCK & WILCOX is a leading manufacturer of boilers and equipment for utilities, marine and heavy general industrial installation. Interesting possibilities are offered in recent development, which include a fog dispersal burner, a crushed coal burner, and a heat-resisting concrete. The company had a nice backlog of $150,000,000 as of December 1, 1947, which is a good indication of the country's great needs for its products. Waiting in line for orders to be filled are such varied industries as the railroads, marine, oil, construction, utilities, and others. Though overhead costs are heavy, profit margins widen appreciably on large volumes, thereby permitting good sized revenues. Peak earnings of $9.00 a share are indicated for 1947, with a probable continuation of the high level of operations throughout this year. The $1.00 quarterly dividend will likely continue and may be increased. The stock has a good measure of speculative appeal.

BUDD COMPANY, as a merger of Budd Wheel and Budd Manufacturing, has inherited a varied line of activities: It is a leading producer of all-steel automobile bodies, an important factor in the building of light-weight stainless steel trains, and an outstanding manufacturerer of wheels, hubs, brakes, and dual wheels for cushion-tired trucks. Company had a substantial backlog of $178,682,000, as of June 30, 1947. This reflects the great potential demands stemming from the railroad, automobile, farm equipment, and other industries. Although a few shortages still hamper the full productive output of some of these industries, Budd is rolling along at record peace time sales. Earnings for 1947 are estimated at $1.75 a share, compared with deficit operations in 1946 due to loss of war work. A high level of activity is expected over the coming years. The recently inaugurated dividend of $0.10 a share will undoubtedly be bettered in 1948. The stock has favorable long term prospects.

GENERAL ELECTRIC, as the largest light and heavy electrical equipment manufacturer, has also the largest backlog in the industry: $912,000,000, as of September 30, 1947. Already a full-grown giant, GE is not resting on its past laurels but is continually expanding and growing. An indication of the company's business acumen is the fact that it was able to operate at a profit in the difficult depression years of 1932-33, by offering the public new and improved products. The same strategy is being followed today, coupled with a lowering of retail prices in an effort to combat the inflation spiral. The great demand for the company's products is being translated into new peace-time sales peaks. A heavy overhead is unavoidable in a company of this size, but large volume operations offset it and result in substantial profits. Last year probably saw earnings of close to $3.00 a share, compared with only $1.49 in 1946. Because of further expansion plans, dividend payments this year may not exceed the $1.60 paid last year. But the expansion should bear fruit. The common has attractive possibilities for the long term.

OTIS ELEVATOR, like the other companies, is also reflecting the high level of business activity throughout the country. As of September 30, 1947, it had a backlog of over $100,000,000. By far the leader in its field, Otis depends upon large-type construction for the bulk of its profits; but maintenance and replacement work contributes materially and, by its nature, tends to stabilize revenues. An important boost to earnings may be given by the company's newly-developed and improved escalators, whose sales are approaching near-record proportions. Although high costs of labor and materials

Pertinent Statistical Data

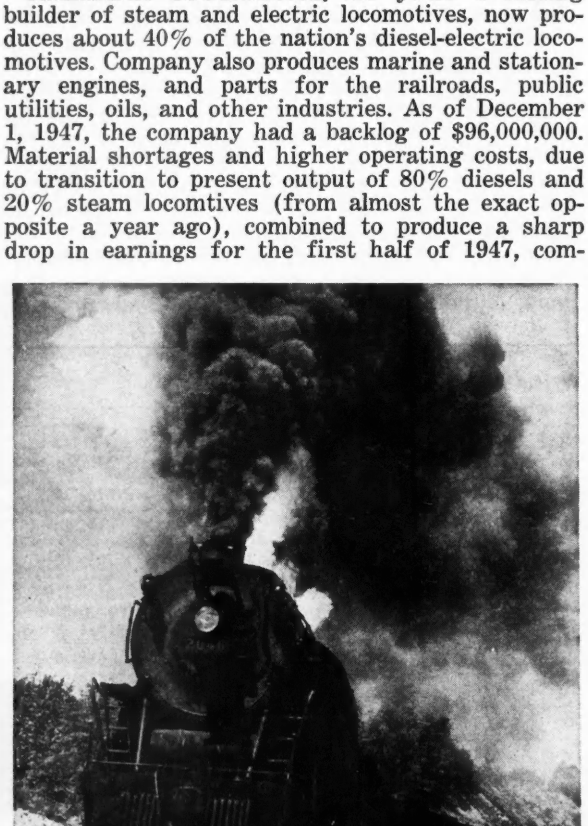
	Order Backlog ($ Million)	Net Sales—$ Million 1946	Net Sales—$ Million Est. 1947	Net Per Share 1946	Net Per Share Est. 1947	1947 Dividend	Dividend Yield	Recent Price	Price-Earnings Ratio	1947 Price Range
Allis Chalmers	$160.0	$93.8	$190.0	def$.06	$2.00	$1.60	4.1%	$39	19.5	42¾-30¼
American Car & Foundry	270.0	132.8	110.0	5.26	6.00	3.00	7.1	42	7.0	54⅞-36
American Locomotive	96.0	115.1	110.0	3.04	2.00	1.65	7.8	21	10.5	30⅜-18⅝
Babcock & Wilcox	150.0	Not Reported		2.94	9.00	3.50	6.4	55	6.1	61 -37½
Budd Company	178.7	122.3	190.0	def1.46	1.75	.10	1.0	10	5.7	14⅞- 9
Curtiss-Wright	130.0	72.0	80.0	.02	(a)	.25	5.6	4½	......	6⅜- 4⅛
Foster Wheeler	81.0	24.2	30.0	.10	1.75	1.00	3.2	31	17.7	32½-19¼
General American Transportation	61.0	65.9	90.0	3.46	6.50	2.75	4.7	58	8.9	58¾-48
General Electric	912.1	679.1	1,200.0	1.49	2.75	1.60	4.4	36	13.1	39⅞-32
Link Belt	60.0	61.6	85.0	5.50	8.00	3.00	4.8	63	7.9	63 -47
Otis Elevator	100.9	46.2	80.0	2.36	3.25	1.35	4.2	32	9.9	33⅝-24
Pullman	375.7	261.9	190.0	.64	4.50	3.00	5.6	53	11.8	61½-51¼

(a)—No estimate; deficit $.30 was reported for nine months ended September 30.

are dampening influences, the widening of profit margins on large orders enables good earnings to be realized. These probably were $3.25 a share for 1947, compared with only $2.36 in 1946. With well-sustained activity, this year may well see further gain. A moderately greater dividend is possible in 1948 than the $1.35 paid in 1947. The stock has long term appeal.

PULLMAN is also one of the fortunate companies, with a backlog of $375,700,000 as of November 1, 1947. Having completely divested itself of the sleeping car business, Pullman is still the largest builder of freight and passenger railway cars in the country. The company also owns an important subsidiary that is engaged in petroleum refinery and chemical engineering, and the sale of related products, in addition to conducting nuclear energy experimentation. This subsidiary is also developing a process for refining fats that has good potentialities. Utilizing the proceeds from the sale of its sleeping car business to purchase its stock in the open market will materially enhance future earnings per share. With great demand for its products, Pullman probably earned $4.50 a share in 1947, as against $0.64 for the previous year. Demand is expected to hold up well throughout this year and very likely the next. Dividends in 1948 are expected to at least equal the $3.00 paid in 1947; they may possibly be greater. The stock is a promising long term speculation.

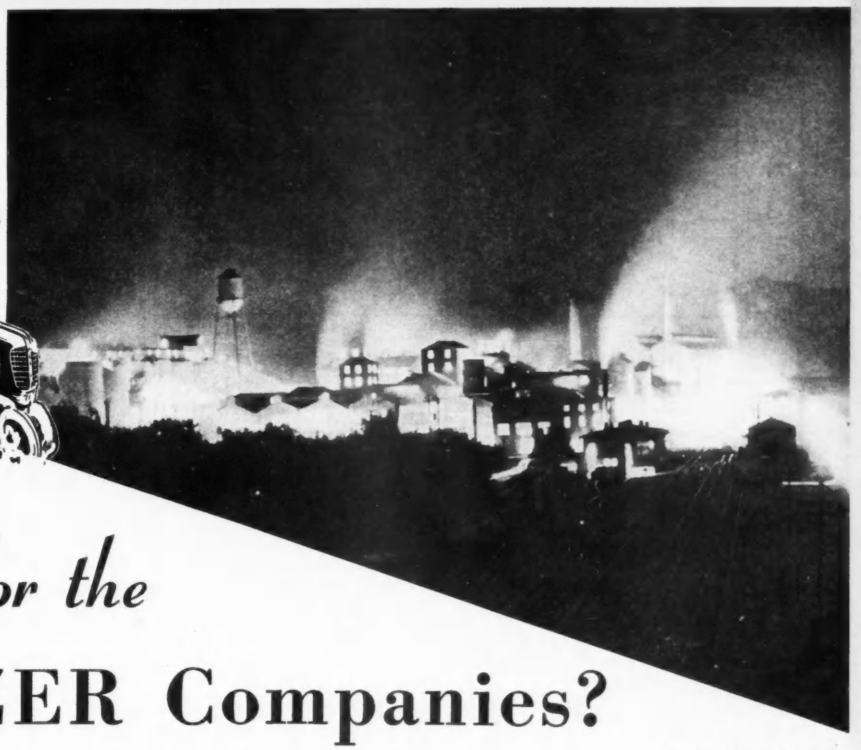
AMERICAN LOCOMOTIVE, for years a leading builder of steam and electric locomotives, now produces about 40% of the nation's diesel-electric locomotives. Company also produces marine and stationary engines, and parts for the railroads, public utilities, oils, and other industries. As of December 1, 1947, the company had a backlog of $96,000,000. Material shortages and higher operating costs, due to transition to present output of 80% diesels and 20% steam locomtives (from almost the exact opposite a year ago), combined to produce a sharp drop in earnings for the first half of 1947, compared with the similar period of 1946. While competition in this field is keen, alleviation of material shortages and termination of changeover costs should result in wider profit margins on steadily increasing volume. With more and more railroads turning to diesels because of their efficiency and economy, the outlook for this phase is distinctly favorable. That the company is coming into high gear earning power is demonstrated by estimates of $2 a share for the full year 1947, compared with only $0.59 for the first six months. Indications are that this trend is continuing. Dividends should continue at the 0.35 quarterly rate. Stock is attractive for its good yield and ultimate appreciation possibilities.



FOSTER WHEELER manufactures and installs a wide variety of boiler equipment, oil refinery machinery, brass and copper pipes, and air conditioning equipment. It also furnishes engineering equipment. As of July 1, 1947, backlog was $81,-026,002. Company is a marginal producer and needs a large output for good earnings. Keen competition tends to hold selling prices near prewar levels. With the continued high level of activity in the heavy goods industries, the potential demand for company's products is substantial. Steadily improving profit margins resulted in probable earnings of $1.75 a share for 1947, compared with $0.10 in 1946. The $0.25 quarterly dividend appears secure.

LINK BELT, an important producer of iron and steel chains, all types of conveying machinery, and a complete line of power transmission equipment, had unfilled orders of $60,000,000 as of October 1, 1947. Company recently enlarged and improved its manufacturing facilities. Though costs are increasing, higher selling prices and greater operating efficiency are producing comfortable profit margins. Earnings for 1947 are indicated at around $8.00 a share, compared with $5.50 in 1946. Dividend payments this year should exceed the $3.00 paid last year. Heavy overhead necessitates large volumes for worthwhile earnings; but with a strong trade position and well diversified markets, the company should obtain its full share of the current high rate of industrial activity. Stock is attractive for the good yield and appreciation aspects.

GENERAL AMERICAN TRANSPORTATION owns and operates a fleet of 54,500 freight cars, of which about two-thirds are tank cars and the balance refrigeration cars. Company is also the fourth largest freight car builder, in addition to manufacturing plastic products and processing machinery for the chemical, paper, food, and distilling industries. Backlog was $60,000,000, as of December 1, 1947. Company enjoys many strategic advantages: Large car-leasing operations; stable transportation of consumer goods; heavy consumption of petroleum and refrigerated products; and promising prospects in new fields. Operations have always been profitable since the company was incorporated in 1916. Current increased labor and material costs are being offset by a high level of activity in most of the company's divisions. Last year's earnings are expected to have reached $6.50 a share, compared with only $3.46 the previous year. More liberal dividends may be paid this year than the $3.25 disbursed last year. Stock has considerable appeal for generous dividends and growth prospects.



A Boom for the FERTILIZER Companies?

Photo by Amer. Potash

By PHILLIP DOBBS

Interim earnings reported by some of the important fertilizer manufacturers during 1947 made a progressively better showing than others in the chemical group. Since for many years past, growth prospects for producers of soil aids have been considered rather limited and for long periods in prewar their earnings were either drab or unimpressive, current evidence of above average prosperity has turned the spotlight upon them. Whether their present trend toward better showings earningswise represents a temporary spurt or signals prolonged good times forms an interesting subject for examination.

In the current worldwide battle to restore economic stability, one clear fact has assumed major importance. That is to say, ample supplies of food are a requisite without which civilization cannot survive. Somehow or other, mankind has managed to get along through the ages with makeshift shelter, clothing, equipment and transportation, but were it not for plant life in some form, existence would have been impossible. Though weather conditions in off years have brought famine in their wake, Nature on the whole has provided enough from the ground to sustain a growing population with their food needs as well as clothing and shelter.

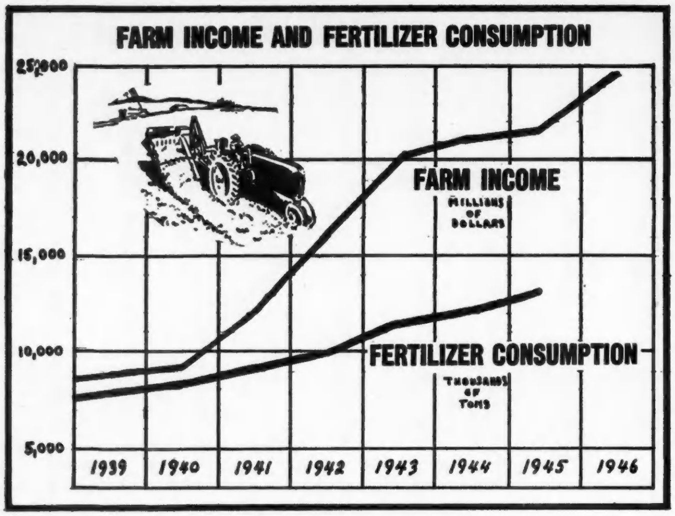
Importance of Soil Aids

While since time immemorial it has been recognized that better crops could be raised through the use of humus, manure and chemicals, only in relatively recent years has it become increasingly apparent that if disaster is to be averted, the soil of the Earth itself has got to be better fed or its bounty will rapidly fade. Nations with sizable populations in relation to their arable areas, like Japan, Germany and other European countries have long been awake to the need of scientific soil conservation, and as a matter of self-preservation have tackled the problem assiduously and with great success. Now that war has ravaged their capacity for extracting and processing the necessary minerals and chemicals, though, their entire industrial recovery will be checked unless the needed fertilizer elements can be supplied by outside nations, for to raise essential food supplies at home is their number one problem. Further on in our discusion, we will enlarge upon this subject.

The Domestic Position

Here in the United States where the science of probing into the mysteries of plant life has made great strides and our output of agricultural products has seemingly been prodigious in favorable years, the conservation of our one billion acres of arable land has been decidedly casual and on a haphazard basis generally. Despite all warnings and pleas of Federal experts, drastic treatment will now be required to restore about 15% of former lush farm lands to anything like normal productivity, and about a third of this potentially valuable acreage will have to be completely resurrected. These unfortunate conditions have been created in part through ill-advised niggardliness of the farmers in purchasing sufficient soil nutritives to offset those removed along with their crops. More extensively, though, the spring floods have been to blame in washing away top soils that contained whatever natural or synthetic fertilizers were left or had been accumulated through the years.

Between one adverse factor or the other, soil experts now figure that, taking the nation as a whole, our farm lands are losing annually from ten to twenty times as many tons of essential fertilizing material as is being replaced. Since authoritative students of nutrition estimate that about three acres



per capita are needed to support human life adequately and the broad figure for the United States is around 7 acres, we seem to have coasted along comfortably thus far, but shut our eyes to the approaching danger from exploiting nature too profligately. In taking stock of our resources to help other nations in the current emergency, and to asure continued prosperity for our farmers, the need for a substantial increase in the use of fertilizers has been forced right to the fore.

The development of the fertilizer industry throughout the country for decades past has been swayed by influences different from those bearing upon other forms of enterprise. The lure of basic importance early brought a number of large concerns into the field as specialists, while fertilizers as by-products or sidelines attracted many of the packers and big chemical companies. Because almost anybody with a little capital could buy the primary elements for a satisfactory fertilizer from the large producers and sell the mixture locally, thousands of small concerns all over the country have also long enhanced the over-all competition. During most of the 1930s, for example, when farm prosperity was at low ebb and purchase of fertilizers was sadly neglected, price cutting and overproduction greatly restricted the earning power of many of the large producers in the field. Some concerns, indeed, were forced into the red year after year, though a few exceptional companies managed to do pretty well for themselves.

Excellent War-Time Profits

Under the stress of wartime conditions, however, the fertilizer manufacturers as a group earned excellent profits for five years, and due to record affluence on the farms, their wave of prosperity is still continuing strong. What is bothering many investors, however, is the prewar reputation of the industry for overcapacity and the memory of lean years in the 1930s, while offhand growth potentials have seemed rather slim.

Upon analysis, it seems that domestic demand potentials, quite aside from those abroad, together with greater integration achieved by some of the leading manufacturers and a strengthened financial position, may indicate promise of more permanent stability for the fertilizer industry from this time forward. The generally big nest eggs accumulated by the farmers are likely to be drawn upon as never before, should food prices decline as they certainly will some day, and a liberal share will go for the purchase of proper fertilizers. Right now, they cannot get enough.

The dust bowls and the declining fertility of farm lands bought at high prices, when the productivity of the soil has diminshed through careless methods, have taught the farmers a lesson they are not likely to forget. And for a good many years to come, lack of money is not likely to be a restrictive factor. Besides this, agriculture has come to adopt regular business policies that invite upkeep as a prime necessity more than ever in poor times.

All of which lends confidence to the prospects of the fertilizer manufacturers for improved stability compared with former years. In support of this premise, the old time seasonal character of the business, with deliveries largely confined to the first half year, is rapidly giving way to year around purchasing of fertilizers by the farmers in order to assure adequate stockpiles for future use. For this reason, sales by some concerns during last half of 1947 rose sharply compared with 1946.

Production Trends

The manufacture of standard fertilizers is a fairly simple process depending importantly upon supplies of nitrogen or nitrates, phosphorus and potash. Most of the large concerns buy their nitrates in the form of compounds such as sulphate of ammonia or sodium nitrates. Until recent years, needed amounts of potash were imported from Germany, France and Spain, tonnage of this kind reaching 310,000 metric tons by 1930. Since then, fortunately, we have disdovered and developed some substantial potash deposits of our own. Mines in New Mexico have provided the largest source of this mineral while additional amounts are derived by cracking or evaporating the brines from Lake Searles in California and Great Salt Lake.

From year to year since 1932, our domestic production of potash has increased consistently until by May 1947, the industry delivered 976,000 tons. As matters now stand, the domestic supply of potash is sufficient to preclude need for importations hereafter. As for phosphorus, the leading fertilizer manufacturers own large reserves of phosphate rock that they mine and treat with sulphuric acid or in electric furnaces, meeting their need for acid by purchase of sulphur or pyrites.

What a change in fertilizer consumption has occurred in recent years is shown by statistics provided by various Government Agencies. In the 1926-36 decade the least amount sold in any year was in 1932, when our farmers bought 4.3 million tons compared with 8.2 million in 1930. Not until 1937 was this latter figure again equalled, but thereafter totals climbed steadily until in 1946 the commercial producers sold 15.5 million tons aside from an estimated one million tons produced by Federal corporations such as the Tennessee Valley Authority.

As pointed out earlier in our discussion, the fertilizer companies have displayed ability to show favorable earnings during recent years when unit

production has been on the upgrade. More importantly, this has been achieved with a commensurate boost of less than 20% in prices during the past ten years, considerably less than for manufactured goods in general. That there could have been any price rise at all seems to refute the widely held notion that overcapacity in this industry any longer constitutes a serious threat. Rather it is true that in view of widespread demands for better soil conservation in the United States, some expansion by the industry may become necessary over the longer term.

Foreign Requirements

Since fertilizers have been mentioned among the urgent needs under the Marshall Plan, a good deal of optimism has arisen over possible benefits that may accrue to our domestic manufacturers. Upon examination, though, the importance of this factor appears to have been exaggerated. As for phosphate rock, all the itemized list of commodities to be shipped abroad calls for would be 21,000 tons by June 1948 and 83,000 tons thereafter annually until 1951. The nitrogen we are expected to furnish Europe would amount to only 12,000 tons prior to next summer, 70,000 tons in 1949, 39,000 tons in 1950 and none thereafter. Spread over the fertilizer industry, these modest amounts are likely to prove rather insignificant in relation to company profits, and hardly constitute a strain upon our resources. Of more general interest is the fact that we will be "sending coals to Newcastle" for a while, because Germany boasts of the largest synthetic nitrogen plant in the world at Leuna, in the Russian zone. And also in this same area are immense deposits of phosphate rock that in former years represented an important export item.

So many of the large chemical concerns, such as Dow, American Cyanamid and Monsanto Chemical, contribute special materials for use in fertilizer mixtures that they weigh substantially in the overall picture of the industry. For the purpose of our discussion, however, we will take a look at only those concerns with whom production of fertilizers is a major undertaking.

Among these, American Agricultural Chemical stands out with a very satisfactory record of earnings and liberal treatment of shareholders. During the past decade, the company's sales have expanded rather steadily from a level of $18.4 million in 1938 to $41.1 million for the fiscal year ended June 30, 1947. Net income per share has climbed even faster from $1.22 in 1939 to $6.84 in 1947. Dividends have been paid in every year since 1934, increasing consistently from 35 cents per share in 1938 to $3.25 in fiscal 1947. The quarterly dividend rate was raised to 75 cents and an extra of $1.50 paid in 1947. Capitalization of this concern consists solely of 627,969 shares of no par common.

Working capital of $17.5 million is of peak proportions and a current ratio of 3.4 to 1 indicates a sound financial status. As American Agricultural Chemical has large reserves of phosphate rock in Florida and its 21 plants are strategically located to serve areas East of the Rockies, its operating advantages are considerable. As a recent price of 50, the shares of this company are selling at practically their high for 1947. At that, a price-earnings ratio of 7.4 appears modest compared with those of many others in the chemical industry. On basis of yield and potential appreciation, the shares seem to carry appeal for a long pull.

Virginia-Carolina Chemical

Virginia Carolina Chemical Corporation has facilities for producing about 860,000 tons of fertilizers annually. The company's main output consists of mixed fertilizers, super-phosphates and concentrates and its market areas served are mostly in the South. As is common with the fertilizer industry, the fiscal year of this concern ends on June 30. Sales for fiscal 1947 were reported as $42 million, $6 million above the previous year, and during the last half showed a rise of about 32%. Though net income in fiscal 1947 amounted to $4.4 million, or $4.90 per share on the common, arrears that currently total $83.50 per share on the preferred naturally preclude any hope of early common dividends.

Prior to 1946 for many years, the company failed to earn even its preferred dividends by a wide margin. While it is quite possible that henceforth high level volume may enable Virginia Carolina to realize satisfactory profits for an extended period, it is obvious that unless steps are taken to clear up the back dividends on the preferred, the status of the common will remain highly speculative. For this reason, the stock sells at barely twice reported earnings.

Tennessee Corporation, through its subsidiary Capital Fertilizer Company, produces a large amount of soil aids sold extensively in the middlewestern states. Additionally it sells substantial quantities of sulphuric acid to its competitors in the fertilizer industry. Because the primary operations of this concern involve the treatment of sulphide ores, copper and zinc sinters produced by another subsidiary, the Tennessee Copper Company, its profits are not wholly dependent upon fertilizer sales.

Since 1934, when earnings came to 41 cents per share, a rather steady uptrend pushed net up to $1.89 for the year ended *(Please turn to page 436)*

Statistical Summary of Leading Fertilizer Manufacturers

	Net Per Common Share									
	1938-41 Average	1942-45 Average	1946	1947 Interim	1947 Estimated	1947 Dividend	Recent Price	Dividend Yield	Price-Earnings Ratio	1947 Price Range
American Agricultural Chemical	$1.67	$2.94	$4.80	$1.11 Se3	$6.84(a)	$4.00	$50	8.0%	7.4	50⅞-34½
Davison Chemical	.16	2.54	2.36	1.15 Se3	3.51(a)	1.00	23	4.3	6.5	24¾-16¼
International Minerals & Chemicals	def.87	3.05	3.92	.33 Se3	4.35(a)	1.60	33	4.8	7.6	34½-22¼
Tennessee Corporation	.96	1.44	1.89	2.09 Je6	3.75	1.50	18	8.3	4.5	20⅛-13¼
Virginia-Carolina Chemical	def1.66	def.52	.87	.....	4.90(a)	Nil	9½	.....	1.9	10⅝- 5⅛

(a)—As reported for the fiscal year ended June 30, 1947.
Se3—For 3 months ended September 30, 1947.
Je6—For 6 months ended June 30, 1947.

Opportunities . . .

for Income and Price Appreciation

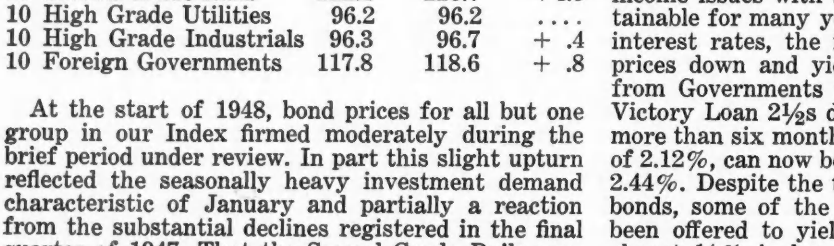
IN BONDS And PREFERRED STOCKS

By JACKSON D. NORWOOD

The Magazine of Wall Street's Index of Bond Prices showed the following changes for the period indicated:

	Dec. 27	Jan. 2	
40 Domestic Corporates	109.5	109.9	+ .4
10 High Grade Rails	104.0	104.1	+ .1
10 Second Grade Rails	222.1	226.7	+4.3
10 High Grade Utilities	96.2	96.2	....
10 High Grade Industrials	96.3	96.7	+ .4
10 Foreign Governments	117.8	118.6	+ .8

At the start of 1948, bond prices for all but one group in our Index firmed moderately during the brief period under review. In part this slight upturn reflected the seasonally heavy investment demand characteristic of January and partially a reaction from the substantial declines registered in the final quarter of 1947. That the Second Grade Rails rose more sharply than the other groups was due to the more favorable outlook for railroad earnings because of the boost in freight rates. With rail stocks taking the lead in the market, speculative bonds of the carriers were quick to respond as usual.



As matters now stand in the securities markets, many interesting opportunities have opened up compared with a year ago for investors to acquire fixed income issues with better yields than have been obtainable for many years. An uptrend during 1947 in interest rates, the first in 12 years past, brought prices down and yields up on all classes of bonds from Governments to the most speculative issues. Victory Loan 2½s due 1962-68, for example, hardly more than six months ago obtainable only on a basis of 2.12%, can now be bought to provide an income of 2.44%. Despite the tax exempt feature of municipal bonds, some of the top grade issues have recently been offered to yield slightly better than 2%, up almost ½% in less than a year's time. Best rated corporate bonds that last year sold to yield around 2.50% can now be bought on close to a 4% basis, and those classed with a Baa rating are generally to be had with about ½ of 1% better yield than in recent years.

Since the automatic adjustment of bond prices to the higher level of yields, according to maturities or call dates, has brought some very substantial declines in its wake, it is interesting to weigh the present Group Index figures shown at the beginning of our discussion with those established a year ago. Viewed from this angle, the price decline for 40 Domestic Corporates has been 6.8 points — 10 High Grade Rails, 8.7 points — 10 Second Grade Rails, 28 points 10 High Grade Utilities, 2.4 points — 10 High Grade In-

dustrials, 2.8 points, and 10 Foreign Governments, 11.2 points.

But this all-embracing drop in prices fails to show what rapid changes can occur in relation to yields on long term bonds to establish even a moderate rise in the income return. Should the yield on a thirty year 3% bond selling at par rise to 3½%, the price would fall to 90.76 and to yield 4% it would fall to 82.62, a drop of 17.38 points in the latter case. In individual instances, substantial price declines of this sort have actually occurred for some bonds, especially those convertible into equities. American Telephone & Telegraph 2¾s due 1961, for example, have dropped from their 1947 high of 119¾ to around 101 in sympathy with the decline in AT&T stock, aside from considerations of the general uptrend in yields.

Whether prices for bonds have now declined as far as they are likely to go is debatable in view of the many factors that enter the situation. On balance, the evidence points to the probability that interest rates may continue to climb slowly during 1948, as discussed in detail in an article in the December 20, 1947, issue of our Magazine. Funds needed by our giant utilities and industrial concerns for expansion and to conduct business at current high price levels have been mounting faster than the available supply of investible capital in the hands of institutions and private lenders. The total amount of new corporate capital raised in 1947, aside from refunding operations, rose to $3.3 billion, a gain of $1.3 billion over 1946, and no signs of a let-up appear on the horizon unless lenders for some reason decide to tighten their purses.

When the Government lowered its support levels for Federal bonds late last year, thus raising yields on all classes of bonds accordingly, borrowers rushed into the market and new bond issues totalling more than $1.4 billion poured into the market during the fourth quarter alone. Following the sharpest break in Government bond prices in years during December, the Federal Reserve Bank jumped into the breach and in 3 business days bought a record $970 million of U. S. Government issues. Beyond any question, this marks a first step in stabilizing this class of bonds on a 2½% basis for the longer term issues indefinitely, and to this extent the general bond market should not experience similar repercussions in the foreseeable future. Supply and demand factors hereafter will mainly influence bond prices in general.

Regardless of a gradual uptrend in yields that may occur, the fact is clear that a good many sound bonds are now available for investors to yield an income comparable to that of high grade preferred stocks a year ago, and often considerably better. In like fashion the yield on selected preferreds, too, has radically improved, for many of these senior stocks can now be purchased for a long term pull to yield from ½ to 1% more than for a long time past, in other words on a basis of from 4% to 5%. Where relative safety and stable income are the main factors to be considered in adjusting conservative portfolios, opportunities in the media of bonds and preferred stocks now carry an appeal that formerly was much lessened by unsatisfactory yields.

Whether the rate of income now obtainable appears sufficient to individual investors is a matter for personal decision, and whether the market price will decline further only time can tell. In our opinion, however, in which many of our readers concur, selected bonds and preferreds have closely approached a buying zone, and could provide long term good income for those who favor these media. To assist our readers with a few suggestions from a very wide field, we present the following issues for consideration.

Suggestions for Current Investment Funds

	Recent Price	Call Price	Current Yield
BONDS:			
Atlantic Coast Line Gen. 4½'s 1964	$101	N.C.	4.40%
Missouri, Kan. & Texas 1st Mtg. 4's 1990	71	N.C.	5.90
Boston & Alb. R.R. Term. Imp. 4¼'s 1978	80	$105	5.31
Northern Pacific R.R. Ref. 5's C 2047	95	105*	5.26
Southern Pacific Deb. 4½'s 1981	87	110	5.17
Texas & Pacific Ry. Gen. 3⅞'s 1985	96	105½	4.04
*—Not prior to July 1, 1952.			
PREFERRED STOCKS:			
Philadelphia Co. $3.00 Pfd. (par $50)	52	N.C.	5.77%
U. S. Steel Corp. $7.00 Pfd.	136	N.C.	5.15
Cudahy Packing $4.50 Pfd.	83	103½	5.42
Wheeling Steel $5.00 Pfd.	90	105	5.56
General Cigar $7.00 Pfd.	138	N.C.	5.07
Union Pacific $4.00 Non-Cum. Pfd.	99¼	N.C.	4.28

MISSOURI, KANSAS & TEXAS RY. CO. first gold 4s due 1990, currently selling around 71, yield about 5.90%. These bonds are non-callable. The issue is a first lien upon 1307 miles of track and upon 301 pieces of rolling stock. Of an authorized issue of $40 million, $24,931,500 are outstanding, and they underlie about $35.6 million of other bonds. During the 1942-46 period, M K & T's earnings averaged 2.80 times its interest charges and rentals, and even under the adverse operating conditions of 1947, the road covered its fixed charges by a margin of 2.40 to 1 in the eleven months ended November 30. The recently granted rise in freight rates favors potentials for 1948. The 1947 price range for these first 4s was: High—95¼, low—67⅝.

ATLANTIC COAST LINE general unified gold 4½s due June 1, 1964. These Series A bonds are legal investments for savings banks in eight states, including New York, Massachusetts and California. They are a first mortgage upon 566.65 miles of track and other property, and subject to $50,724,000 first 4s are a direct lien upon 3823 additional trackage. Atlantic Coast Line serves the South Atlantic States from Virginia to Florida, an area rapidly developing in industrial importance and a source of heavy tourist traffic. Since 1938 this road has consistently earned its fixed charges, by more than three times over in fact during the 1942-46 period, on the average. During 12 months to November 1, 1947, the earnings after taxes were reported as 2.82 times fixed charges. Price range for the bonds in 1947-48 was: High—111¼, low—98. At recent price of 101, a yield of about 4.40% is obtainable, rather attractive for a Ba bond of this sound road.

PHILADELPHIA COMPANY $3 preferred stock, par $50 per share, now selling around 52, yields 5.80%. At one time in 1947, these shares sold at 59, to yield about 5%, and their (*Please turn to page* 440)

★ ★ ★

FOR PROFIT AND INCOME

★ ★ ★

Bull Signal

Well, folks, you are now in a bull market, according to Dow Theory. The bear market ended at the October 9, 1946, low in the industrial average. This average established its part of a bull pattern by rising last July above a previous intermediate high (February) after an intervening decline which had halted, in May, slightly above the bear market low. However, the rail average failed to "confirm" on the summer recovery, topping out below its intermediate high of last February which was 53.42. That little matter has now been taken care of. It took only the first trading sesion of 1948 to see the rails close at 53.85, a new top.

Skeptical

Because of the time lag by rails in the pattern cited above, some Dow-Theory forecasters hold that it would be prudent to demand another new top, above that of last July, in the industrial average before accepting the bull-market interpretation as the McCoy. This is a departure from orthodox trend interpretation under the Dow Theory, but the extra requirement implies a note of caution in their thinking to which this column takes no exception. **Indeed, it would be still more prudent, we think, to be skeptical of the whole thing for two reasons.** First, the pattern cited is limited only to the Dow-Jones averages. More accurate indexes of composite stock prices made their bear market lows (to date) last May and have yet to conform to a bull pattern of the Dow Theory type. Second, the long term record of money-making possibilties on confirmatory "bull signals" under Dow Theory has been poor, as we have noted before — poor enough to suggest that speculative stocks are a better sale than buy on any further strength following the "signal" in the present instance. Regardless of Dow Theory, this column does not see the makings of a genuine bull market in the economic uncertainties of 1948.

Rate Decision

The ICC decision granting the railroads a further sharp temporary boost in freight rates is significant in several respects. First, it supplies added evidence that the Commission is sympathetic, and will do all in its power to keep the railroads prosperous. Second, it implies that the two interim increases, good until next June and amounting, with exceptions, to a total of about 17.8%, probably constitute the minimum permanent relief to be authorized. Third, on anything like present traffic volume, this is enough to assure 1948 earnings considerably larger than those of 1947, despite conservative allowance for higher costs.

Movies

Two recent earnings reports of motion picture companies give food for thought. For the year ended last August 31, Loew's earned only $2.26 a share, against $3.66 in the previous year; while for the first 13 weeks of its current fiscal year Columbia Pictures netted only $370,000, a drop of nearly 62% from earnings for the like period of the prior year. It

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1947	1946
Burlington Mills	Year Sept. 27	$6.48	$3.47
Chain Belt	Year Oct. 31	5.35	1.46
Champion Paper & Fibre	28 wks. Nov. 9	2.51	2.22
Glidden Co.	Year Oct. 31	7.57	2.95
Hayes Mfg.	Year Sept. 30	1.57	.24
Minneapolis-Moline Pwr. Imp.	Year Oct. 31	5.81	1.52
Rath Packing	Year Nov. 1	3.27	2.30
Reliance Electric & Eng'g.	Year Oct. 31	7.53	1.65
Spalding (A. G.) & Bros.	Year Oct. 31	4.18	2.82
Warner Bros.	Year Aug. 31	3.02	2.62

should be noted that the effect of reduced British business — due to the 75% import tax on U. S. films, which appears subject only to partial eventual compromise — has yet to be reflected fully in earnings. In other words, the present poor showing is due mainly to higher costs, lower theater attendance and fewer "hit" pictures. The combination of falling earnings and effective box-office competition from foreign films (many of superior quality, despite conservative production costs) may at last put Hollywood on its toes; but the fruits will be longer-term. The foreseeable outlook is not bright; and the stocks show no significant rallying power, despite the end of tax-selling pressure.

Value

Consolidated Gas, Electric Light and Power Company of Baltimore has paid dividends continuously since 1910, and such changes as have ever been made in the rates have been upward. The present $3.60 rate has been paid since 1930, and was amply covered in depression years such as 1932-1933 and 1938. The company probably will show around $4.75 a share earned in 1947, down a little from 1946, due to higher costs. There is no question whatever about the dividend, which yields over 5.2% return at current market price of 69. The stock sold as high as 91 in 1946 and as high as 83¾ in 1947. Since it has fallen to around 40, and a yield basis of some 9%, at extreme bear-market lows, we cannot say it is immune to possible further decline. What can be said is that, for the purposes of investors who have to put idle cash to work now, who want a good return and who require a high-quality stock, this issue offers good value on a long term perspective.

Building

Most building stocks have been quite sluggish on the general market rally from the lows of early December. Evidently demand and supply are closely balanced. When you get that condition in the face of a boom level of construction and record earnings for materials manufacturers, the chances are that sellers of these stocks are more foresighted than buyers. Whether or not they prove premature in their timing, the probability is that the next important change in the building situation wil be toward lower volume. What looks fine now could readily be the rounding top of the building inflation, even if the pateau is maintained for some months to come. Some of the heat will be taken off of industrial construction in the course of 1948 in any event; and in the residential field buyer resistance to high prices is capable of developing at almost any time. A large element of "psychology" is involved. Significant price weakness anywhere in the economy, or a cautious reversion to recession-thinking in the business community, could influence house buyers almost overnight to defer action. The recent indifferent action of building stocks may of course merely reflect expectation of a seasonable drop in construction activities. There is nothing infallible about it. The doubts might be resolved, again on the favorable side. But if poor market action continues much longer, one will ignore it at no little peril.

Profitless Boom

The air transport industry is in a profitless boom. For 10 months to October 31 the gross revenue of the leading lines rose nearly 20% to a record $309 million, but there was an operating loss of nearly $10 million. Their planes operated at 66.6% of seating capacity, against 81.3% in the first 10 months of 1946. Due to high operating costs of existing total equipment, and to competition, the trend toward super-planes continues, involving large capital outlays, The newer and larger planes are inherently more efficient; but strong as is the rate of growth in passenger traffic, so far the total seating capacity continues to outrun it, as shown by load-factor comparisons previously cited. Evidently the industry cannot prosper operating at no better than two-thirds of seating capacity. Yet the load factor will not improve unless (1) the companies halt expansion of capacity and (2) the boom in travel continues. Meanwhile, whenever there is a general business recession affecting travel air lines will go even deeper into the red. This column has long warned against buying the stocks. It still does.

1948 Earnings

The writer figures that the peak in total corporate earnings, on a quarterly basis, probably has been put behind. Even if present sales volume continues, a small sag in total profits for 1948 seems likely, due to higher costs and the increasing difficulty that will be met in trying to pass them along in higher consumer prices. That is the best possibility. The worst is that any material decline in sales could drop quarterly earnings sharply, as a result of present generally high break-even points. At this distance, full-year forecasts for the individual industries necessarily carry a considerable margin for error. The oil industry is the most assured of having substantially larger earnings this year than last. Others which this column thinks are likely to better 1947 results, even assuming a moderate degree of general recession within the second half year, are farm equipment, autos, chemicals, rail equipment, railroads and soft drinks. That's as it looks now. These projections are less assured than in the case of oil. Stock market response is something else again.

Guessing

The biggest net gain in 1947 by

(*Please turn to page* 439)

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1947	1946
American Distilling	Year Sept. 30	$4.04	$11.70
Consolidated Gas of Balto.	11 mos. Nov. 30	4.65	5.14
Cornell-Dubilier Electric	Year Sept. 30	1.87	2.06
Dayton Rubber	Year Oct. 31	3.80	4.43
Heinz (H. J.)	6 mos. Oct. 31	1.97	2.03
Loew's	Year Aug. 31	2.26	3.66
Norwalk Tire & Rubber	Year Sept. 30	1.00	2.25
Nunn-Bush Shoe	Year Oct. 31	2.16	2.43
Pacific Tel. and Tel.	12 mos. Nov. 30	2.66	5.93
Schulte, D. A.	Year Oct. 31	.23	.58

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Chain Belt Company

Please furnish recent earnings, dividends and outlook for Chain Belt Company.

R. G., New Haven, Conn.

Sales and earnings of the Chain Belt Co. for the fiscal year ended on October 31, 1947, were the largest in the company's peacetime history. Net profit after taxes and all charges amounted to $2,603,823, equal to $5.35 a share, and to a little more than 10% of the year's sales total. Of these earnings, $1,873,660 was retained in surplus to provide for larger inventories, additional plant facilities and working capital. In the previous fiscal year, net income was $710,176, or $1.46 a share.

Sales for the 1947 fiscal year totalled $24,336,966, compared with $13,286,072 in the prior year and $12,419,521 in the 1941 fiscal year. In the best of the war years, 1944, sales reached a peak of $30,112,521. Sales last year were about double those of 1941, the highest pre-war year, and about 2½ times those of 1940, the last pre-war year of strictly commercial business. It should, however, be kept in mind that because of the reduced value of the dollar and higher operating costs, selling prices were also on a higher level than in 1940 or 1941 and consequently, physical volume of output was not as great as indicated by the dollar volume, though it too exceeded all previous peacetime records. Working capital as of October 31, 1947, amounted to $6,887,735 compared with $5,820,144 a year earlier, and an increase of $1,067,591. Inventories of $6,410,645 were $1,966,192 higher. Dividends in 1947 totalled $1.50 a share.

Demand for chain and transmission equipment, construction machinery and conveyors and sewage treatment equipment produced by Chain Belt is expected to continue good during 1948.

Loew's, Inc.

Please advise us to reason for the decline in market price of Loew's Inc. in recent months and also furnish late earnings.

F. A., San Diego, Calif.

The decline in market price of Loew's Inc. was due to lower theatre attendance and also imposition of a 75% tax by Great Britain on American film imports. Production costs of recent films were also higher.

For the fiscal year ended August 31, 1947, Loew's Inc. reported net income of $11,626,427, after provision for depreciation, taxes and all other deductions, equivalent to $2.26 per share on 5,142,615 shares outstanding. This includes $1,093,736, Loew's portion of the net undistributed income of partly-owned corporations. The corresponding net income for the previous fiscal year was $18,691,533 equivalent to $3.66 on 5,100,327 shares then outstanding. This included $732,588, Loew's portion of the net undistributed income of partly-owned corporations.

Total current and working assets on August 31, 1947 aggregated $132,171,887 against $127,830,012 a year before, while total current liabilities were $26,941,991 against $30,844,315. For the 12 weeks ended November 20, 1947, net income after depreciation, taxes and other deductions, subject to year-end audit, totalled $1,354,761 equivalent to 26c a share, compared with $3,670,967 or 72c a share for the corresponding 12 weeks, the previous year. Gross sales and operating revenues for the 12 weeks were estimated at $37,960,000, compared with $41,460,000 for the same period of last year. The company has announced that substantial economies have been effected throughout the organization, the benefits of which should be reflected in future operations. Dividend payments in 1947 totalled $1.50 a share.

Cherry-Burrell Corporation

Please advise nature of business of Cherry-Burrell Corp. and late earnings.

A. M., Palm Beach, Fla.

Cherry-Burrell Corp., manufacturer and distributor of dairy plant equipment and supplies, reported net income of $2,630,868 after all charges and federal taxes for the fiscal year ended October 31,1947. This is equivalent after preferred dividend to $5.33 a share on 457,185 shares of common stock outstanding and is approximately double the net of $1,307,284 and $2.62 a common share on 450,995 shares for the preceding fiscal year. Net sales for the year of $32,600,000 compared with $22,877,090 for the preceding year, an increase of 42.5%, and were considerably more than double the sales in any pre-war year. Moderate advances in selling prices account for a portion of the increase in sales, but it is mainly the result of large increases in the number of units shipped. More than $2,500,000

(*Please turn to page* 439)

Keeping Abreast of Industrial and Company News

Production of window glass and polished plate glass established an all-time record in 1947, recently reported John D. Biggers, president of **Libbey-Owens Glass Company.** All signs point to a continued heavy demand throughout this year. Last year saw a gain of more than 15% over the record year of 1946.

500,000 Video sets, with a value of over $200,000,000, are expected to be produced in 1948, according to John Ballantyne, president of **Philco Corp.** This compares with about 175,000 sets, with a value of nearly $100,000,000, produced in 1947. The 16,000,000 radio sets turned out last year, with a value of approximately $900,000,000, indicates the large potential demand facing the industry.

With the contemplated construction of a big $80,000,000 plant in Kansas, as announced by Governor Frank Carlson, Little Brother **Natural Gas** is doing its best to help Big Brother Petroleum meet the clamoring demand for fuels and chemicals that is being heard all over the country. The Little Fellow is certainly proving his mettle!

That the profits of certain industries, however large they may seem, are not sufficient to meet requirements, is indicated by a statement recently made by the Textile Information Service. It says that it would take $500,000,000 more than the **textile industry** has been able to accumulate in its reserves to replace over-age machinery, buildings and equipment.

Last year saw a more pronounced trend toward the increased use of automatic-control devices in the home and industry than in any of the preceding 100 years in the history of the controls industry, according to a statement made by Harold W. Sweatt, president of **Minneapolis-Honeywell Regulator Co.** Continued expansion for at least the next decade is indicated.

Although the prices of food products are high, John A. Hartford, president of **A & P Food Stores,** points out that consumers are saving as much as 15 cents on every dollar spent for food because grocers have cut their cost of doing business approximately in half during the past 15 years.

Farmers are not slow in turning their bountiful cash into equipment to ease their labors. Already they own more than two million trucks, which is double the 1940 figure and exceeds the number of trucks owned by any other occupational group in the country. In spite of nearly $4.5 billion worth of **farm machinery** produced in the last four years, approximately 25% of all machines on farms are believed ready for discard.

That all-weather flying is leaving the wishful-thinking stage and approaching the practical level is indicated by **E. V. Rickenbacker, president of Eastern Airlines.** He bases his claim upon the production of larger and more modern planes and the installation of lighting and electronic developments.

The importance of foreign film rentals to **American motion picture companies** is revealed by the estimated profits of $138,000,000 from such sources in 1947. Britain accounted for over half the amount. 1948 will likely see slimmer foreign profits. But the American "movie" is well established abroad, and may gradually work its way out of current difficulties.

New records at the age of 69! Such is the claim of the **electric utility industry.** Last year it produced more than 305 billion kilowatt hours, an increase of 13% over the previous year. An interesting sidelight is the fact that this industry has out-stripped the industrial production index of the country by an appreciable margin during the past two decades.

According to **National Gymsum Company,** 1,200,000 homes must be built yearly from 1946 to 1956 to supply the country's housing needs. It is estimated that the volume of money to be spent on total construction will be approximately $19 billion, highest in history.

A poll of the **American Marketing Association** reveals the belief that the new year will be as good as or better than 1947 from a business standpoint. This was the opinion of 90% of the economists, sales analysts, teachers and marketing executives queried by the Association.

President William S. Gray, Jr., of the **Central Hanover Bank and Trust Co.,** expressed optimism over prospects for bank operating earnings for 1948. However, he warned that his prediction would not hold if there was an increase in bank reserve requirements. He opined that the supply of money for lending and investing would be somewhat tighter during the coming year.

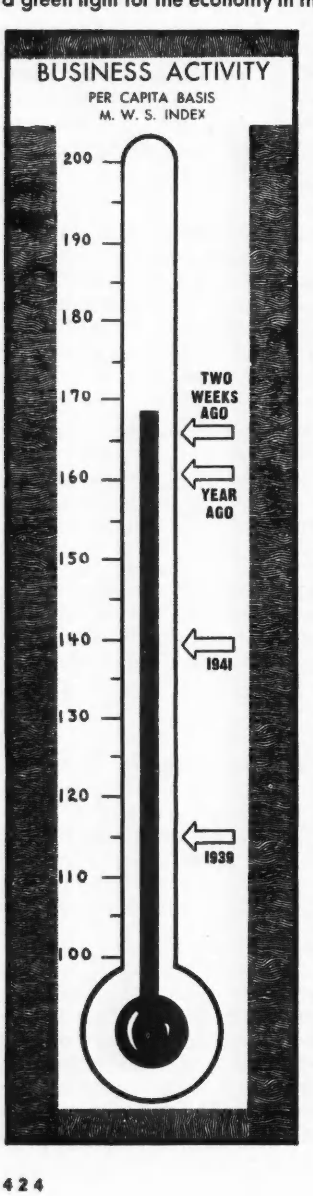
Bendix Aviation Corporation filed a registration statement with the SEC covering 399,990 shares of $5 par common stock. These shares are being sold by General Motors, and Bendix will receive no part of the proceeds. When the sale has been consummated, General Motors will have disposed of the remaining stock it has held in Bendix since 1929.

The BUSINESS ANALYST

WHAT'S AHEAD FOR BUSINESS?

Business has entered the New Year at the highest level of peacetime production ever recorded but at the same time with a strange mixture of optimism and caution. Optimism as far as the more immediate months are concerned; caution regarding the likely course during the latter part of the year when something of a test is widely anticipated.

It is easy to go along with the majority that sees nothing but a green light for the economy in the more immediate future. All basic factors in the economic equation, so far at least, favor this prospect. Current and impending inflationary pressures seem likely to postpone a business downturn for months but as prices soar to new heights, there is increasing danger of such an occurrence.



Prices, and therefore all dollar measures of business, appear too high to be sustained indefinitely. Therefore the key question regarding business prospects is not so much whether a wage-cost-price reaction lies ahead, but to what extent and when such a reaction will occur.

It is this thought that tinges with a good deal of caution the expectations for the latter part of the year, based primarily on the likelihood of an important showdown on the commodity price front—with farm prices a key factor. The size of major agricultural crops both here and abroad will be a basic determinant; thus the price showdown, it would seem, hinges on the unpredictable factor of the weather.

Price trends of course are of elementary importance. But from the standpoint of overall activity, watch the capital goods industries — the backbone of our highly industrialized economy. Production in this field is felt throughout the nation. Any let-down would quickly percolate through the economic structure.

So far the capital goods boom continues unabated, hampered only by an inadequate steel supply and sporadic manpower bottlenecks. The horizon is unclouded: Order backlogs are high, new orders are pouring in at an encouraging rate. But certain developments need watching.

Business investment is levelling off, may even decline in the course of the year under the joint impact of soaring prices and tighter credit. Venture capital for expansion is increasingly harder to obtain. A sharp drop of business investment would be quickly felt—in terms of declining new orders for capital goods, of shrinking order backlogs, ultimately of declining employment. Marshall plan requirements, unless far greater than presently contemplated, would be insufficient to stem the inevitable chain reaction.

It was the capital goods boom that pulled the economy safely through a threatening recession early last year when non-durable goods began to falter in the face of mounting consumer resistance. Today there is again fear that price and income disparity may end the boom.

Such disparities, and they are growing daily, no doubt can become troublesome and result in distinct spottiness of the overall business picture. But last year's lesson is that confidence in the maintenance of high overall consumer spending, and therefore general boom conditions, is justified so long as sustained activity in durable goods holds up income totals and employment. In other words, durable goods hold the key to the outlook; while their potentials are strong, they are vulnerable to excessive prices (directly and indirectly) and to anything that restricts the ready flow of capital into industrial enterprise.

Increased Busines Tempo

Meanwhile increased business tempo is expected in many industries following year-end stock taking. Steel output is on the way up and should continue around recent peak rates. Paper mills, after a temporary slackening, are returning to high operations. Lumber production is on the rebound. Automotive output is rolling at a high rate. Car loadings are expected to reflect the general pick-up with a perhaps notable first quarter rise over last year. Sales in many industries are likely to spurt. Even soft goods, and notably textiles ,are holding up remarkably well. Retail trade alone may show a reactionary trend.

Inventory accumulation is flattening out but there is sufficient buying pressure to place a further strain on the price line which keeps pushing higher. Latest price increases affect such diverse items as tires, fuel oil, steel scrap and pig iron, to mention but a few.

Final Marshall plan decisions may be considerably delayed as the debate in Congress is likely to wax hot. One of the uncertainties—to what extent they may hedge business freedom—may not soon be clarified. Perhaps greatest fear is that of restrictive effect of steel allocations but chances are that allocations—whether offcial or private—may be less onerous than anticipated.

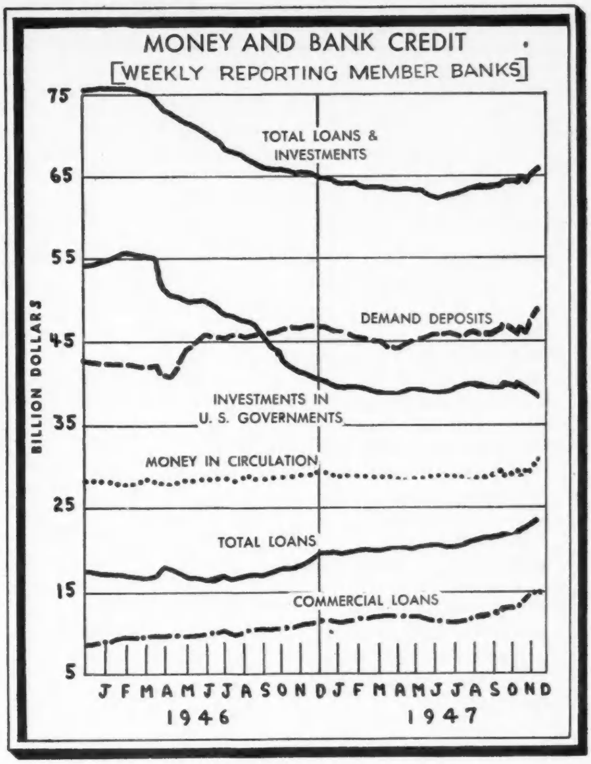
HIGHLIGHTS

MONEY AND CREDIT—Interest rates continue to creep upward. Latest 90-day Treasury bills offered to yield 0.952, a new post-war high. Federal reserve system lowers support level for Government bonds. Treasury redeemed in cash on Jan. 1 $400 million of matured one-year Treasury certificates. Railroad bonds sag to new lows since 1943. Stocks rally: then react. Third quarter dividends 20% above like period last year.

TRADE—Outlook for 1948 is for somewhat larger dollar volume of sales; but smaller unit volume and profits. Department store sales in week ended Dec. 27 spurted to 27% above last year, against cumulative gain of only 9% for year to date.

INDUSTRY—Business activity at new all-time high—nearly 7% above last year. Net profits of all manufacturing corporations during second quarter averaged only 6.8 cents per dollar of sales, against 7.5 cents for first quarter. 1948 outlook is for continued prosperity, with higher wages and prices. Outlook for railroads and oil industry especially promising but air lines will stay in the red this winter.

COMMODITIES—Spot and futures markets react: then perk up as Government resumes buying for export. Raw silk drops, sharply. Snow blanket brightens wheat prospects.



The new year opens with prospects for continuing prosperity with full employment, rising prices and a generally high level of business profits. Huge exports, heavy military expenditures and a still unsatisfied domestic demand for many lines of goods assure this. In the week ended Dec. 27, **Business Activity** expanded to a new all-time high—nearly 7% above last year at this time.

* * *

Net **Profits** of all manufacturing corporations for the second quarter, after taxes, amounted to only 6.8% of sales, and 3.9% on net worth, compared with 7.5% and 4.2%, respectively, for the first quarter. Yet **Dividends** disbursed during the second quarter averaged 32% of net profits against only 25% for the first quarter.

* * *

Publicly declared cash dividends (about 60% of all dividends) disbursed in the three months ended Nov. 30 were 20% more liberal than for the like period last year. November dividends, however, were up only 4%.

* * *

The 1948 outlook for most industries is promising, particularly for petroleum and the railroads. Retail store profits, however, may be somewhat smaller than in 1947, and **Air Lines** will probably continue to report deficits this winter. Passenger traffic has already slumped more than seasonally, while labor and other costs keep soaring.

Oil Industry profits for 1947 set a new high record (as did our index of petroleum common stock prices) and should show spectacular improvement in 1948 in view of the recent inordinate hike in prices. True, there will be more wage increases; but labor is not a major expense here.

* * *

Railroads, for the most part, were already doing fairly well under the initial emergency freight rate increase of 8%, and will fare much better now that the I. C. C. has authorized an additional interm increase averaging 9%. They have also just been granted a temporary mail rate increase which will add about $35 million yearly to gross income, while western roads last week asked permission to raise passenger rates.

* * *

Early in 1948, a third round of **Wage Increases** will be sparked by packing house workers. Then will come demands from steel, automobile, coal and other unions. Toward the end of the year the rail unions will probably line up for their share of gravy. And so the wage-price spiral soars upward, leaving non-union folks to foot the bill.

* * *

Incidentally, the C. I. O. has just come out with another brilliant thought on the subject of economics. It wants wages to be based upon **Profits Before Taxes.** The grand idea here is that business can get along nicely on smaller profits, as thus defined, because it would then save on taxes. The beauty of

(Please turn to following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Nov.	1.04	1.19	1.51	1.55
Cumulative from Mid-1940	Nov.	361.6	360.6	346.0	13.8
FEDERAL GROSS DEBT—$b	Dec. 31	256.8	256.6	259.0	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Dec. 24	48.8	49.2	47.2	26.1
Currency in Circulation	Dec. 31	29.0	29.1	29.0	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Dec. 24	8.48	8.30	7.68	4.26
93 Other Centers—$b	Dec. 24	13.18	13.00	13.00	7.60
PERSONAL INCOMES—$b (cd3)	Oct.	204.5	210.9	184.0	102.0
Salaries and Wages	Oct.	126.9	126.3	115.2	66.2
Proprietors' Incomes	Oct.	50.9	48.4	45.3	22.8
Interest and Dividends	Oct.	14.9	15.0	13.3	10.0
Transfer Payments	Oct.	11.8	21.2	10.2	3.0
(INCOME FROM AGRICULTURE)	Oct.	24.6	22.8	21.3	10.1
CIVILIAN EMPLOYMENT—m (cb)	Nov.	58.6	59.2	57.0	51.8
Agricultural Employment (cb)	Nov.	8.0	8.6	7.9	8.8
Employees, Manufacturing (lb)	Oct.	15.8	15.8	15.1	13.8
Employees, Government (lb)	Oct.	5.4	5.4	5.5	4.8
UNEMPLOYMENT—m (cb)	Nov.	1.6	1.7	1.9	3.8
FACTORY EMPLOYMENT (1b4)	Oct.	157	157	150	47
Durable Goods	Oct.	181	180	174	175
Non-Durable Goods	Oct.	138	139	130	123
FACTORY PAYROLLS (1b4)	Oct.	342	337	293	198
FACTORY HOURS & WAGES (1b)					
Weekly Hours	Sept.	40.3	39.8	40.3	40.3
Hourly Wage (cents)	Sept.	125.1	123.8	112.6	78.1
Weekly Wage ($)	Sept.	50.42	49.21	45.39	31.79
PRICES—Wholesale (1b2)	Dec. 27	163.0	162.5	139.6	92.2
Retail (cdlb)	Sept.	184.9	181.4	164.3	116.2
COST OF LIVING (1b3)	Sept.	163.8	160.3	145.9	110.2
Food	Sept.	203.5	196.5	174.1	113.1
Clothing	Sept.	187.6	185.9	165.9	113.8
Rent	Sept.	113.6	111.2	108.8	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Oct.	10.03	9.33	8.91	4.72
Durable Goods	Oct.	2.39	2.21	1.92	1.14
Non-Durable Goods	Oct.	7.64	7.12	6.99	3.58
Dep't Store Sales (mrb)	Oct.	0.88	0.84	0.82	0.40
Retail Sales Credit, End Mo. (rb2)	Oct.	5.41	5.12	3.88	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Oct.	257	260	228	181
Durable Goods	Oct.	290	292	248	221
Non-Durable Goods	Oct.	236	240	215	157
Shipments (cd2)—Total	Oct.	318	315	244	184
Durable Goods	Oct.	338	336	262	223
Non-Durable Goods	Oct.	305	300	231	158
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Sept.	40.1	39.2	32.4	26.7
Manufacturers'	Sept.	23.2	22.9	18.9	15.2
Wholesalers'	Sept.	6.9	6.8	5.0	4.3
Retailers'	Sept.	10.0	9.5	8.5	7.2
Dept. Store Stocks (mrb)	Sept.	2.2	2.0	2.1	1.4

PRESENT POSITION AND OUTLOOK

Skepticism in Investment Circles as to the Government's ability to peg its bond prices indefinitely at par, or slightly better, precipitated an avalanche of sales during the week ended Dec. 30. In supporting prices at the new lower level, the Federal reserve banks had to buy $970 million of Government bonds, about $175 million of which were supplied by member banks. Largely in consequence of this, member bank **Excess Reserves** rose to $1.59 billion, the largest since Dec. 16, 1946.

* * *

Expanding demand for bank credit, which always accompanies a business boom, invariably brings an inflation rise in **Interest Rates** with a resulting decline in prices for investment securities, Government, corporate and private. After World War I, Government bonds, lacking Government support, dropped to around 70.

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It is inconceivable that this will be permitted to happen again, but equally unreasonable to expect that Federal agencies can succeed indefinitely in preventing Government bonds from sinking at least moderately below par. Efforts to do so would add more fuel to the **Inflation** blaze.

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Of course it could be done for a few months while the Treasury is running a large surplus in consequence of gold imports and heavy tax collections. But there may be another story to tell when Government expenditures under the Marshall plan get into full swing and gold imports begin to fall off.

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In this connection it should be noted that rising interest rates alone are no deterrent to borrowing for expansion.

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and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—1—pc	Dec. 27	168.0	166.9	161.8	141.8
(M. W. S.)—1—np	Dec. 27	188.5	187.2	176.9	146.5
INDUSTRIAL PROD.—1—np (rb)	Nov.	192	190	183	174
Mining	Nov.	156	154	136	133
Durable Goods, Mfr.	Nov.	225	223	214	141
Non-Durable Goods, Mfr.	Nov.	177	175	173	141
CARLOADINGS—t—Total	Dec. 27	599	832	628	833
Manufactures & Miscellaneous	Dec. 27	291	392	287	379
Mdse. L. C. L.	Dec. 27	86	113	97	156
Grain	Dec. 27	36	46	45	43
ELEC. POWER Output (Kw.H.) m	Dec. 27	4,830	5,368	4,442	3,267
SOFT COAL, Prod. (st) m	Dec. 27	8.3	13.2	9.5	10.8
Cumulative from Jan. 1	Dec. 27	612	604	527	446
Stocks, End Mo.	Nov.	48.2	48.0	52.4	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Dec. 27	5.3	5.3	4.7	4.1
Gasoline Stocks	Dec. 27	91	87	92	86
Fuel Oil Stocks	Dec. 27	52	52	53	94
Heating Oil Stocks	Dec. 27	50	51	60	55
LUMBER, Prod. (bd. ft.) m	Dec. 27	305	521	239	632
Stocks, End Mo. (bd. ft.) b	Oct.	5.6	5.7	4.3	12.6
STEEL INGOT PROD. (st.) m	Nov.	7.25	7.56	6.46	4.96
Cumulative from Jan. 1	Nov.	77.4	70.2	60.8	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Jan. 1	54	64	62	94
Cumulative from Jan. 1	Jan. 1	5.659	5,605	5,192	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Dec. 27	114	158	109	165
Hosiery Production (pairs)m	Oct.	166	143	145	150
Cigarettes, Domestic Sales—b	Oct.	33.2	29.2	32.8	17.1
Whiskey Production (tax gals.)m	Oct.	9.7	9.8	9.3	11.8
Do., Domestic Sales	Oct.	7.8	4.3	6.0	8.1
Do., Stocks, End Month	Oct.	475	475	380	506

PRESENT POSITION AND OUTLOOK

(Continued from page 425)

this conception is, as the C. I. O. points out, that without profits business would have no taxes to pay. We wonder who would then finance our huge Government expenditures. Would the unions welcome a big hike in income taxes? Also who would put money into an enterprise that earned nothing? And where would workers laid off in consequence find employment?

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Department Store Sales in the week ended Dec. 27 spurted to 27% above the like period last year, compared with a cumulative gain of only 9% for the year to date.

* * *

Lowering by the Federal reserve system of its support level for **Government Bonds** resulted last week in a drop of 2½ points in the "unrestricted" Victory 2½s, followed by considerably smaller declines in corporate bonds and preferred stocks, with railroad bonds of all grades sagging to new lows since 1943.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

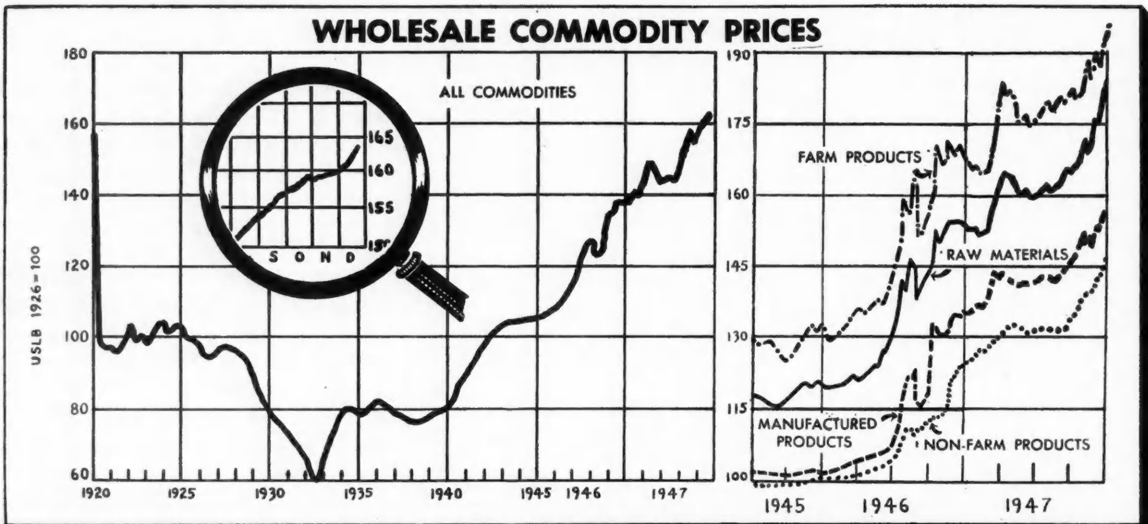
No. of Issues (1925 Close—100)	1947 Indexes High	Low	Dec. 27	Dec. 31
304 COMBINED AVERAGE	148.8	111.5	130.8	131.3
4 Agricultural Implements	211.0	143.4	207.6	209.1
11 Aircraft (1927 Cl.—100)	167.1	108.2	135.3	134.3
6 Air Lines (1934 Cl.—100)	636.9	410.3	428.1	430.3
6 Amusement	146.0	87.5	88.7	87.5b
14 Automobile Accessories	237.4	161.9	200.3	201.5
11 Automobiles	42.8	30.8	38.5	38.4
3 Baking (1926 Cl.—100)	24.1	17.4	17.8	18.2
3 Business Machines	301.6	230.8	261.7	267.2
2 Bus Lines (1926 Cl.—100)	175.0	116.1	148.7	148.6
4 Chemicals	261.6	223.8	239.5	244.1
2 Coal Mining	20.1	14.0	15.3	15.4
4 Communication	58.3	40.6	45.2	44.0
13 Construction	66.5	48.0	63.3	64.2
7 Containers	371.5	291.4	319.6	323.3
8 Copper & Brass	113.9	90.9	100.5	101.6
2 Dairy Products	69.7	54.3	54.9	56.6
5 Department Stores	78.6	55.6	60.2	59.6
5 Drugs & Toilet Articles	223.2	149.4	169.3	172.2
2 Finance Companies	257.1	203.3	214.0	216.3
7 Food Brands	190.4	155.2	166.8	168.7
2 Food Stores	78.9	63.6	69.0	67.5
3 Furniture	94.3	66.1	77.9	80.8
3 Gold Mining	924.7	694.2	706.4	694.2d

(Nov. 14, 1936, Cl.—100)	High	Low	Dec. 27	Dec. 31
100 HIGH PRICED STOCKS	89.87	72.58	83.30	84.05
100 LOW PRICED STOCKS	183.14	124.35	146.67	146.56
6 Investment Trusts	62.8	48.3	58.2	58.6
3 Liquor (1927Cl.—100)	933.6	592.1	764.6	747.8
8 Machinery	159.4	123.1	154.4	154.9
3 Mail Order	129.5	84.2	99.5	99.0
3 Meat Packing	112.6	84.9	106.7	104.5
13 Metals, non-Ferrous	196.7	137.4	159.7	154.4
3 Paper	44.1	31.1	41.4	41.3
23 Petroleum	232.2	172.2	230.9	232.2Z
20 Public Utilities	134.4	99.9	101.2	102.6
5 Radio (1927 Cl.—100)	23.2	16.1	21.3	20.1
8 Railroad Equipment	80.6	55.8	59.4	60.0
23 Railroads	27.2	17.0	22.1	22.3
3 Realty	32.9	19.7	22.4	23.9
2 Shipbuilding	116.0	87.4	113.0	110.8
3 Soft Drinks	592.3	462.9	511.6	516.5
13 Steel & Iron	121.1	90.7	111.0	110.9
3 Sugar	68.2	50.1	50.2	50.1c
2 Sulphur	253.8	211.0	238.7	240.0
3 Textiles	143.6	93.8	140.7	140.0
3 Tires & Rubber	41.4	28.8	31.3	31.3
6 Tobacco	87.4	65.2	67.5	68.3
2 Variety Stores	342.5	289.1	319.8	319.5
19 Unclassified (1946 Cl.—100)	108.5	83.7	100.5	101.0

Z—New all-time HIGH. New LOW since: b—1945; c—1944; d—1943.

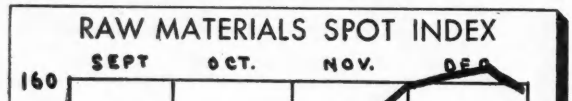
Trend of Commodities

Spot and futures markets were mildly reactionary in the closing fortnight of the old year, with the Government out of the market temporarily and traders waiting on the sidelines to see if the expected increase in offerings by farmers after New Year Day would materialize. In the first few days of 1948 farm marketing has been somewhat heavier, but sales have been smaller than anticipated. Everyone knows that the Government must re-enter the market soon to obtain grain for February export; so that the new year has opened with a firmer price tone. Prices received by farmers jumped 5% between mid-November and mid-December to a record high of 301% of the 1909-14 average. Prices paid by farmers also reached a new high on Dec. 15, at 245% of the 1910-14 average. This was 16% above the Jan. 15 level. Withdrawal of Government buying from the market since Nov. 25 has permitted a drop of 20 cents in wheat at Kansas City. The decline was accelerated by private forecasts of 1.3 billion bushels for the 1948 crop, only 35 million short of last year's record harvest, in consequence of the protective blanket of snow in wheat-growing areas. As Congress has decreed that the carry-over on June 30 shall not be less than 150 million bushels, a cut of 50 million bushels is expected in the Government export goal for the 1947-48 crop year to a total of 450 million bushels. Cotton prices firmed upon opening of the new year following release of the mid-December parity price which, at 30.38 cents, was 1/2 cent above December, 4.09 cents higher than a year earlier and 8.56 cents above Dec. 15, 1945.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

	Date Jan. 3	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	348.6	352.6	355.5	333.9	302.2	304.8	156.9
11 Imported Commodities	298.5	312.5	308.4	299.4	271.0	289.8	157.5
17 Domestic Commodities	385.4	381.3	389.8	358.3	324.2	315.0	150.6
7 Domestic Agriculture	415.8	415.6	410.2	388.2	359.4	310.3	163.9
12 Foodstuffs	448.6	444.3	449.5	422.9	366.5	364.8	169.2
16 Raw Industrials	286.7	296.2	292.8	277.5	261.2	266.2	148.2



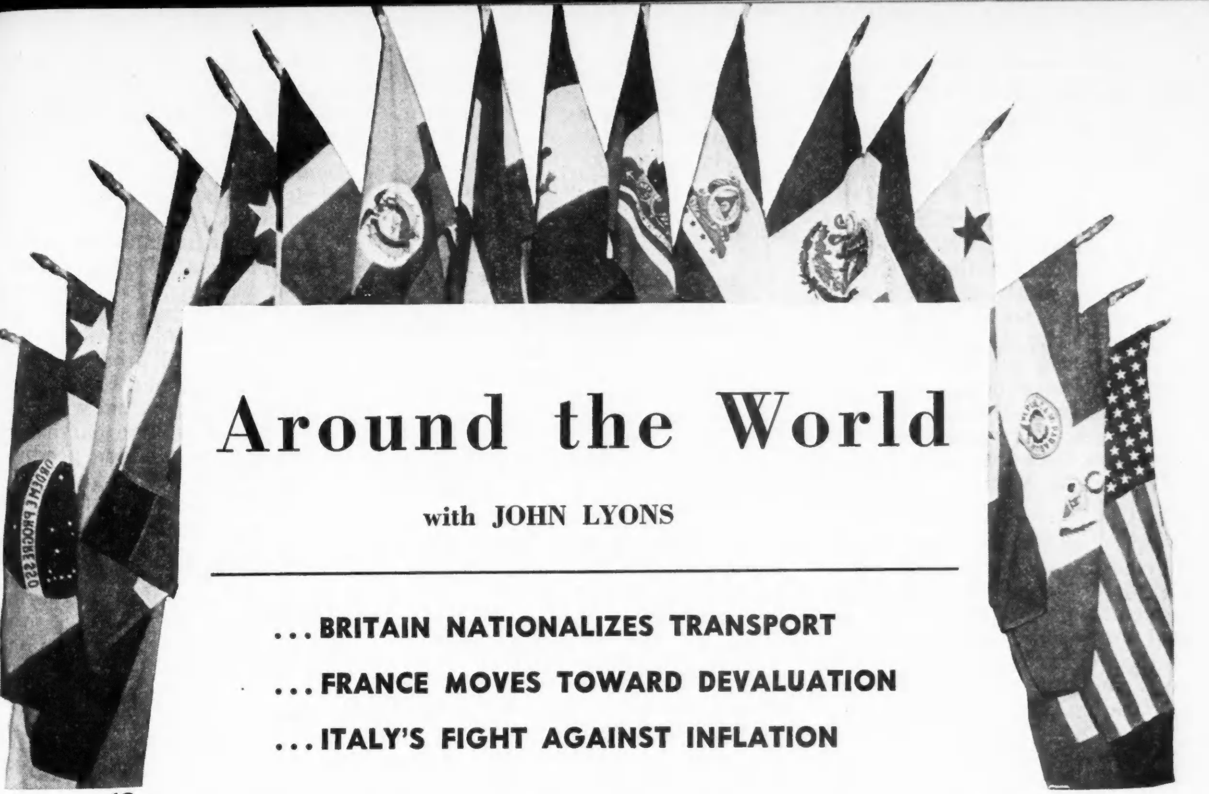
14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1947	1946	1945	1943	1941	1939	1938	1937
High	164.0	128.8	95.8	92.9	85.7	78.3	65.8	93.8
Low	126.4	95.8	93.6	89.3	74.3	61.6	57.5	64.7

Average 1924-26 equals 100

	1947	1946	1945	1943	1941	1939	1938	1937
High	175.65	127.07	106.41	96.57	84.60	64.67	54.95	82.44
Low	117.14	104.21	93.90	88.45	55.45	46.59	45.03	52.03



Around the World

with JOHN LYONS

. . . BRITAIN NATIONALIZES TRANSPORT

. . . FRANCE MOVES TOWARD DEVALUATION

. . . ITALY'S FIGHT AGAINST INFLATION

Britain's transport has been nationalized January 1, ending a century of agitation for public ownership and operation of the railroads. The cost to to Governent will be over $3.6 bilion but the step will contribute nothing toward easing the severe transport crisis which threatens to outdo even the well publicized coal and fuel crisis from which the country is suffering.

The British railways are a very sick industry, run down, much of the rolling stock obsolete, and on the whole totally inadequate to handle the country's transportation job. And nationalization cannot possibly work a miracle. Improvement, if any, is bound to come slowly and there is a good deal of doubt whether it will come at all. If the railroads will be run like the coal industry, the British view the outlook as none too good.

Shortage of equipment is the main trouble, and to this must now be added the question of management through the Transport Commission which still has to prove itself. Britain has about 1.2 million freight cars, nearly 30% over 35 years old. About 100,000 break down every week, and about 250,000 are overage. At any given time, at least 200,000 are in repair yards. And slow "turnaround" of cars in use enormously intensifies the shortage.

While the Government this year expects to get over 500 new locomotives, close to 50,000 new freight cars and about 1,000 new pasenger coaches, existing equipment will be wearing out at least as quickly as replacements are obtained. Considering all this, nationalization could hardly have been undertaken at a less opportune time: The nationalized rail system is expected to carry 20% more traffic than prewar with 15% less equipment.

Thus Britishers and especially British industry, are keeping their fingers crossed, hoping that the vast monopoly of all inland transportation that has been created will work at least as well as under private ownership. Success or failure depends on its administration, and failure at this time would have incalculable effects on Britain's recovery efforts.

French Inflation Continues

Communist pressure may have shifted from France and Italy (towards Greece), but the situation in both these countries remains critical. The French Government is finding the going extremely difficult, especially along the economic front where failure to make progress will inevitably spell renewal of Left-Right strife. French inflation continues as the biggest source of trouble, and the government is expected to move ahead with devaluation of the franc as soon as internal reform measures, aimed at domestic financial stability, are reasonably assured.

Adoption of the government's billion dollar tax program, against strong communist and Rightist opposition, is a good step forward in this direction, paving the way for eventual devaluation. Recurrent Paris reports of various suggested franc devaluation moves must be viewed in the nature of trial balloons to test the reaction of the International Monetary Fund and of this country before a firm proposal is submitted by the French authorities.

One of these tentative sugestions talks about the idea of creating a special "export franc," devalued some 40%, for use prior to full devaluation of the domestic currency. The fight against inflation must be won first, before the latter is feasible.

Deflation Effort In Italy

Italy, in fighting inflation, has made greater strides, attacked the problem far more energetically than France. The lira has been sharply devalued to give it something like its real value in terms of "hard currencies." Credit controls are being tightened though the ultimate effect of this measure is still a matter of doubt. On the *(Please turn to page 438)*

Which Industries Offer Best Prospects For 1948

(*Continued from page* 397)

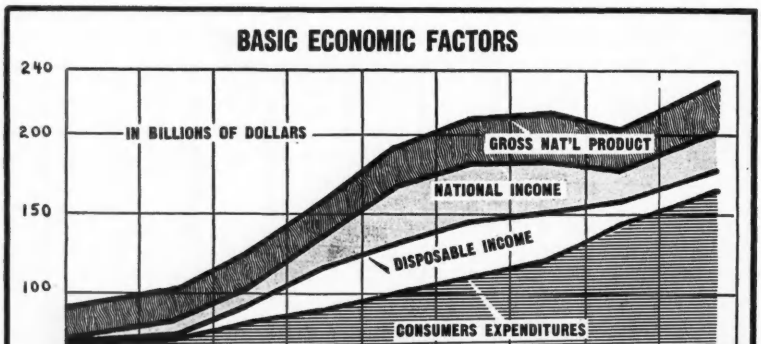
pulp and waste paper, the industry's three major raw materials, and inventories of these have expanded materially. Labor productivity, while not fully offsetting sharply advancing wage rates, has improved and profit margins generally have been held at favorable levels through compensatory price increases. The result was that 1947 earnings have set new records for leading companies.

Operations in 1948 will depend on the rate of activity in non-durable goods fields which consume the major portion of paper and paper board, and the prospect is that demand will remain firm for some time to come, with corresponding good earnings. Newsprint is expected to continue in substantially short supply through 1948. With newsprint prices again increased recently, newsprint manufacturers should do extremely well earningswise.

Paper company shares, normally highly cyclical, have outperformed the general market since mid-1947, extending their gains in the face of general market irregularity during the latter part of the year. Still, at current prices, they are reasonably valued in relation to prospective near-term earnings. With the latter currently at or close to a peak, the market may be slow in further discounting indicated excellent profits over the near term, though there may be exceptions. Some companies including those in the newsprint field have made notable financial progress that may not remain without ultimate market recognition. Moreover, paper demand even under declining business conditions is likely to flatten out at a relatively higher level than in prewar in view of the long term consumption uptrend and the successful broadening of markets for paper products.

PETROLEUM: New records have been chalked up by virtually every division of this industry last year and further progress in 1948 is strongly indicated. The main problem has been and still is — supply. Demand has never been in question, as current shortages of virtually every petroleum product shows. Crude oil output last year was at a peak both here and abroad and demands reached unprecedented heights, exceeding those of the war.

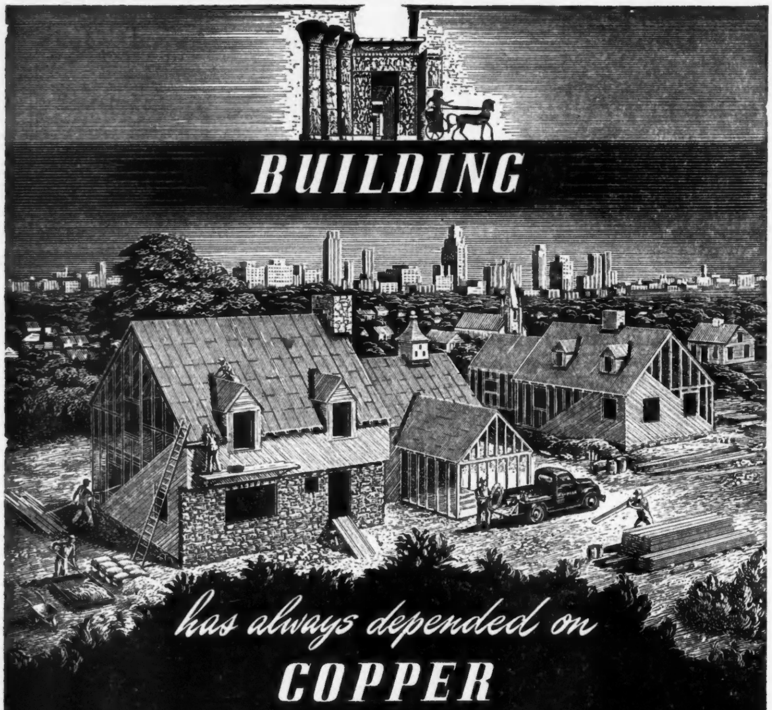
Sensing this development, the oil industry at the start of last year embarked on the greatest expansion program in the its history. For 1947 and 1948, it is estimated that outlays for expansion and improvement will exceed $4 billion. The world's petroleum industry, of which the American industry is a prominent part, envisages expansion outlays of no less than $13 billion, to be invested over the years 1947 to 1951. Since these programs are dependent largely on steel supplies for early effectiveness, it is probable that the contemplated increase in oil producing and refining capacity will not be rapid enough to result in a buyer's market for oil products for at least two years.



Domestically, an estimated 150,000 barrels a day was added to the nation's refinery capacity last year and it is expected that a further increase of 300,000 barrels a day will be added this year, bringing the total capacity to around six million barrels daily. Domestic crude oil production in 1947 averaged about 5.2 million barrels daily compared with an average of 4.75 million barrels in 1946. To this was added production of about 350,000 barrels daily of natural gasoline and other hydrocarbons. Imports of crude oil and petroleum products averaged 450,000 barrels a day, or just about enough to offset exports. Virtually all wells in the U.S. produced at capacity, still the gap between demand and supply narrowed ominously. To meet continuous demand expansion at home, greater reliance on imports is strongly indicated, quite apart from efforts to step up domestic crude oil production which necessarily is a rather slow process.

The basic data presented in the foregoing depict the great strength of the present oil situation, as well as current and prospective earnings potentials for the industry. Earnings last year reached the highest level in history in the wake not only of record production but sharply rising prices as well. Based on an annual output last year of about 1.9 billion barrels, U.S. producers at the year-end were receiving additional revenue at the rate of $2.6 billion yearly more than they would have been obtaining under wartime prices. Higher crude oil prices and rising operating costs were passed on by the refiners to the public with the result that the refining branch also participated in the increased earnings.

Profits in 1948 indubitably will be good—most likely better even than in 1947, but the high rate of earnings gain recently enjoyed cannot be expected to continue. Past profits to a large extent resulted from crude oil production previously developed at a cost far below what would be involved today in its replacement. Drilling expenses are rising sharply and may continue to increase at a faster rate than revenues in 1948. Additionally, foreign oil fields are



being developed aggressively by leading companies, at considerable expense. Costs, in short, are rising all around.

Most refinery capacity, too, had been built at prices less than one-half of today's replacement costs. Because of comparatively small original cost, depreciation charges are low compared with those that must be made against new installations. Since the normal life of refinery equipment is only about five years, an increasingly greater proportion of future earnings will be needed for replacement purposes.

All these are factors that make not only for a slower rate of future earnings gain despite existence of strong demand potentials but may portend ultimate stabilization and even decline of earnings from current high levels — despite well maintained and even rising volume. Just how immediate their impact may be is, however, difficult to say. The 1948 outlook at least points to excellent earnings, particularly in the light of recent price advances, and with crude oil producers and refiners controlling substantial crude reserves in most favorable position. Marketwise, oil shares should continue to do well. Their long term appeal is unquestioned.

ELECTRICAL PRODUCTS: Electrical manufacturing last year reached a record rate 50% above 1946 and 40% above the prewar peak in 1941, with every segment of the industry making impressive gains. The appliance divisions rolled up a volume more than double that of 1941 and fully 100% better than in 1946. For the coming year, trade quarters anticipate a further industry-wide production upswing but at a rate of gain far narrower than last year, and this prospect must be tempered with a number of "ifs" as far as appliance output is concerned. The lighter appliance lines have not only eaten substantially into accumulated demand, or caught up with it, but are facing keener competition in coming months. In these lines, production and demand patterns are subject to change but capacity production of heavy electrical equipment appears assured for some time.

Shipments of most electrical applances are expected to recede somewhat from the high fourth quarter figure of 1947, with output of most types expected to revert to normal seasonal patterns. Demand for some of the heavier appliance items, notably refrigerators, continues to exceed supply, largely reflecting the shortage of sheet steel and heavy requirements due to normal replacements and sizable needs arising from new residential construction. Small motors are still in heavy demand and are being produced at a record rate. Sales of companies in this field are well above the best prewar showing and close to wartime peak rates. With the profit margins satisfactory, good earnings should continue.

Unit output of the radio industry, with the exception of television and FM receivers, is expected to decline in 1948 but dollar volume may nevertheless exceed that of 1947 because greater output of more expensive and profitable models. Last year's output of radio receivers, estimated at a record high of eighteen million units, was about three million more than in 1946, the previous peak year, and four million more than in 1941, the biggest prewar year.

The relatively brightest prospects exist in the field of heavy electrical equipment, reflecting the enormous requirements of distributing and generating equipment for expansion and modernization of utility systems and extension of rural electrification. Order backlogs of equipment manufacturers are substantial, assuring a high rate of operations throughout 1948. Makers of smaller control equipment such as switches and other devices, will benefit from the indicated record activity in the heavy equipment field. In 1947, the production level in the heavy equipment field was 75% above 1946 and 40% above 1941. This year it should rise at least another 10.%

While electrical shares are reasonably priced in relation to current earnings, they are highly sensitive to changes in production and sales outlook, a factor that finds reflection in extremely low price-earnings ratios for most of them. Only the stronger situated companies, those well diversified or entrenched in the heavier equipment field may duplicate or approach 1947 volume and earnings in 1948.

FOOD PRODUCTS: While the overall supply of food is seen ample in 1948, the concensus is that food prices will not be cheaper; in fact, they may well be somewhat higher. This should point to well maintained volume of food processors but profit margins are somewhat more difficult to predict. There can be little doubt that food will hold its increased share of the consumer dollar in the year ahead, and may even enlarge it. Food store sales last year accounted for $28 billion of the total consumer expenditures of $162 billion, or 17.3%. This compares with 16.6% in 1946 and 15% in 1939, and there appears no prospect for a reversal of the trend in 1948. As long as we have sixty million people at work, with high wages, demand for food is bound to continue heavy despite high prices.

The high price structure is a cause of major concern to every food processor. In order to run his business, he must maintain inventories at prevailing market prices. In the event of a readjustment in demand or a break in prices, inventory losses are difficult to escape. Yet at this writing, the timing of possible commodity price adjustments is extremely uncertain; it

may not come this year at all. No early let-down in operations is in prospect in the packaged goods field, but when prices decline, profit margins will be squeezed and inventory losses in some instances may be substantial. Canners' operations are difficult to predict, depending on crops and seasonal demands. Corn refiners may face somewhat lower earnings not only because of possible supply difficulties due to the reduced 1947 corn crop but also due to posible difficulty in adjusting seling prices to high corn costs in the face of competitive pressure.

In general, 1948 will be a year of well sustained activity in the food field but also a year of uncertainties ranging from the size of food crops to the threat of declining commodity prices. As a result of these uncertainties, food shares are selling close to their 1947 lows and are not likely to perform well marketwise until the commodity price situation becomes somewhat better clarified. While some offer attractive yields despite conservative dividends, market potentials appear below average.

RETAIL TRADE: Retailers are approaching the new year with caution, well aware that for nine years they have been piling sales increase upon sales increase and that this uptrend cannot go on forever. Besides, there have been definite indications that a turning point may be close at hand. While dollar volume recently has shown moderate increases, unit volume has declined and all hands agree that high prices are responsible for this trend that is likely to develop on a broader front this Spring. The prospect is that even on a dollar volume basis, retail sales will show the smallest gains over the next few months of any segment of the economy. Demand for soft goods is no larger than it was a year ago and supply of many other non-durables is rapidly catching up. Simultaneously, most prices are higher. That is bound to affect unit volume if not dollar sales.

Christmas sales on the whole have been disappointing despite an estimated 10% increase in dollar volume. It is widely realized that this was principally due to higher prices, that physical volume was actually lower than the year before. Department stores have probably made the relatively poorest showing. Chain, mail order and food stores have been doing considerably better, and so have many "hard goods" stores. While retail business as a whole may continue at a fairly high level, the opinion is widespread that next Spring will be an important test period, at the very least requiring more aggressive promotional efforts to overcome lagging consumer demand — unless prices decline. The latter, lower prices, is wide open to doubt despite determined efforts by retailers to resist price increases by wholesalers and manufacturers.

The opening months of the new year, it is thought, will see declining sales by department and specialty stores, and no firm conviction is held regarding further trend apart from a likely pick-up for Easter. Unless prices drop, consumer resistance in the long run may harden rather than diminish, as happened last year. Chain store operators look for continued high dollar volume, offset by increased costs of operation and narrowed profit margins. The margin squeeze may result in lower 1948 profits, many believe. By and large, popular priced chains may

Memo From The C&O To The New York Central

Why not have a through coast-to-coast train instead of merely "through sleeping cars"? Passengers could be spared all that stalling in Chicago—and save hours of traveling time.

Transcontinental passengers must still twiddle their thumbs at Chicago!

A word to the public:

It is an unusual circumstance when the largest owners of a business must present their ideas to the management in the public press instead of in a Directors' meeting.

But though the C&O is now the largest owner of the New York Central, our officers may not sit on its Board of Directors, nor may the C&O have any voice in the Central's affairs, until the wheels of the Interstate Commerce Commission grind out an approval.

It appears now that this may take months to win. Meanwhile we are making our recommendations in this way. What you will find here is merely a sample of the kind of thinking the C&O would like to contribute to the Central—in the interest of the railroad and of you the traveler.

To the New York Central:

Knowing your sincere interest in improving passenger service, the C&O urges your immediate consideration of a *through coast-to-coast train.*

It is badly needed. It is practical. There is evidence that it would pay.

Why should businessmen have to lose thousands of man-hours every year sitting it out in railroad yards at Chicago?

The coast-to-coast traveler is now given what is called "through service." But that service is more a phrase than a fact. He no longer has to change cars, but his trip is still interrupted by several hours of waiting at Chicago. He can either kill time in the city or waste it staring at freight cars in a switching yard.

The C&O, whose appeal to the public won the first steps in through service two years ago, still believes that through passengers are not being *well* served. Why shouldn't we have a *through train,* by arrangement with a western road, that would go through Chicago with no more delay than other through trains have at Kansas City, Washington or New York?

Airplanes go through Chicago without layovers. You can travel through Chicago by *bus* with less delay than with the present so-called "through sleeping cars"! Why should the train traveler alone be penalized?

Is it Practical?

When the C&O first urged through service, other railroads objected that there wouldn't be enough demand to support it. Today demand is so great that through sleepers represent *the most profitable sleeping-car business in the country!* These cars average more than $50,000 a year from sleeping car tickets alone. There is clearly enough demand to justify a transcontinental train.

Today the traveler in a through sleeping car bound from New York to Los Angeles or San Francisco must leave hours earlier than he should. And he must spend three to six hours marking time in Chicago before his train for the Coast is ready to leave.

Travel from west to east is even worse. Aboard the fastest through sleeping car, the passenger must leave Los Angeles at noon, arrive in Chicago at noon—then hang around until Century time at 5 o'clock. Surely the Central and a western road could get together on a through *train* to avoid all this needless waste of time.

Why not Do it Now?

The C&O strongly urges this improvement. We believe that if the Central would initiate it, you would gain a great competitive advantage over other railroads servicing the coast-to-coast traveler. Both the Central's customers and its stockholders would win!

The Chesapeake & Ohio Railway

Terminal Tower, Cleveland 1, Ohio

benefit, volumwise, at the expense of department stores, whose volume may not only be narrowed by competition but whose profits may suffer by mark-downs and higher costs. Mail order sales and profits alone show promise of being relatively well maintained; they should continue to benefit from increasing supplies of durable goods and record farm purchasing power.

By and large, retailers face an uncertain period just ahead; even should gains in dollar volume continue in reflection of further price increases, profit potentials are likely to decline under the impact of narrowing margins. Greater consumer price resistance is a very real prospect through dfficult to appraise as to possible repercussions. Reflecting these uncertainties, retail shares marketwise have been under a cloud for some time and are likely to continue so. Some are selling at extremely low price-earnings ratios and afford excellent yield; yet market possibilities at this time must be viewed below average for most of them. Variety stores, mail order shares and some of the stronger situated department stores are relatively most attractive though hardly in line for early market appreciation.

A Boom For The Fertilizer Companies

(*Continued from page* 417)

December 31, 1946. $2.09 per share reported for the first six months of 1947 testifies to further considerable earnings improvement. Payment of regular dividends totalling $1 per share in 1947 was supplemented by declaration of two extras, each of 25 cents per share, bringing total for the year up to $1.50, an all time record. Based on the latter figure, the shares recently selling at 17 would yield about 8.80%. A price-earnings ratio of less than five, based on indicated full year earnings of about $3.75 per share, is the lowest in the group.

Increased activity in the fertilizer field appears to be benefitting Davison Chemical Corporation rather substantially, though this concern also manufactures silica gel on a large scale as an anti-rust item for metals and as a catalyst. Volume for the fiscal year ended June 30, 1947 rose to an all time peak of $25.4 million, and in the September quarter ran counter to the seasonal trend by amounting to $7 million. Davison not only makes mixed fertilizers but superphosphates as well in its agricultural division. As an indication of confidence in its outlook, this concern added $6 million in property, plant and equipment during fiscal 1947, largely for phosphate rock properties in Florida.

The balance sheet as of June 30 showed an exceptionally strong financial position with cash alone of $4 million compared with current liabilities of $1.56 million. Per share earnings for nine months of 1947 were reported as $2.07 per share in contrast to total dividends of $1 per share paid during the full year. Price range for the stock last year was high—24¾, low—16¼, and as we write, the shares are selling around 22½.

International Minerals & Chemical Corporation represents another important unit in the fertilizer industry, with sales and earnings currently exceeding all

previous records. Volume of $41.3 million for the fiscal year ended June 30, 1947 increased 20% over 1946 and 36% over 1945 as an indication of an uptrend well maintained. While the earnings record of this concern was frequently marked with deficits for the common, net per share rose abruptly to $2.71 in 1942 and continued its upward course steadily to $4.35 in fiscal 1947.

A conservative dividend rate of 25 cents a share quarterly has been consistently maintained for the past five years. As a result, working capital was built up to over $11 million and current assets as of June 30 exceeded current liabilities by more than six to one. At recent price of 33, the common stock sells only 1½ points below its 1947 high. The price earnings ratio of 7.6 is indicative of favorable investor appraisal of the company's outlook at this time.

Conclusion

Summing up, it seems that the fertilizer industry is in an era of excellent sales and earnings potentials of unknown duration. As the essential need for much greater soil nutrition becomes more and more apparent, there are grounds to believe that this branch of the chemical industry may ultimately gain a degree of stability heretofore not achieved. It would of course be overly optimistic to assume that current high earnings will continue indefinitely. Ultimately competition, always an incisive factor in this field, is bound to reappear and leave its mark regardless of any long term uptrend in fertilizer consumption by American agriculture.

But the industry at present is in excellent position to strengthen its position not only in the home market but abroad as well where absence of former European competition leaves a clear field. Recovery of foreign fertilizer production is lagging, due chiefly to scarcity of coal for processing of raw materials, and it is not likely that output will soon reach the point where it will again become a dominant factor in the world market. To the American fertilizer industry, this means maintenance of heavy sales, excellent earnings and the prospect of overall improvement in its basic position that should ultimately find market recognition.

Realistic Appraisal Of International Affairs

(*Continued from page* 401)

introduction of communism in the backward areas of China, Mongolia, Turkestan, Persia, and even Indo-China, means some raising of the standard of living—perhaps a bowl of rice more a day. And that is important.

For this reason, the communists may chalk up further gains in various parts of China, particularly if the Chiang Kai-Shek Government refuses to carry out the drastic reform program urged on him a long time by Washington. Only after such reforms will substantial American help — and not occasional shots in the arm — be effective. We have little hope of any appreciable expansion in the trade with **China, Burma, Indo-China** and even parts of the **Dutch East Indies. The Phippines** remain the bright spot in Eastern Asia. Moreover, they are one of the few countries likely to have a plentiful supply of dollars.

As in Germany, further progress **in Japan,** and particularly Japan's participation in world trade, wil depend upon the arresting of inflation and the carrying out of currency reform.

Russia Building A Ruble Bloc?

The Rusians had the luck of having somewhat larger crops this year. This has permitted them to lift food rationing, but not without first ruthlessly reducing the purchasing power of the ruble and of the accumulated savings. To what extent this move will discourage future production, particularly on the part of the peasants, who were hard hit by the devaluation, remains to be seen.

The ruble devaluation was another step in tightening the grip on the eight Eastern European countries. From a purely internal currency, the ruble was lifted to an "international" currency, only insofar, of course, as the Soviet sphere of influence is concerned. The trade among the satellite countries and Rusia will now be measured by ruble prices rather than by dollars.

With the exception of Czechoslovakia and Finland, all overt opposition in the satellite countries has by this time been crushed. Economically the standard of livingof Eastern Europe is now being pulled down to the extremely low Russian level. Will the eight "Molotov" countries like it? We doubt it, and for this reason we expect that the Russians will try to be somewhat more generous than in the past — particularly if there is a pronounced recovery in Western Europe. But by this time, any deflection from the Russian sphere is difficult. Economically all countries are tied to each other and to Russia by a system of trade agreements. And many of the people have apparently become mesmerized by the idea of the industrialization of the Balkan countries (with the help of Czech and Polish industries which are to be expanded several-fold) and of the building of Southeastern Europe into one economically self-sufficient bloc. Since both Poland and Czechoslovakia wil be dependent upon many capital goods from the West, the Rusians do not seem to object to their trading with the countries outside of the Russian sphere.

Will There Be A Third "World"?

The ever-increasing tension between the "West" and the "East" has created considerable uncertainty, particularly in the countries that lie on either side of the "iron curtain." The Europeans have little desire to become another battlefield in two or three years. In Great Britain in particular, there has been a good deal of talk of building up Western Europe into a third kind of "world," perhaps a "middle world," whichwould be a buffer between the "West" as represented by the United States and the rest of the Western Hemisphere, and the communist-controlled "East." It would be a socialist world which to some extent would synthesize the prevailing political and economic ideas on the Continent.

This idea is finding a good deal of support not only in Great Brittain, but has many prominent backers in France and Italy (Count Sforza) and also in Czechoslovakia (President Benes) and Finland. The Russians would be probably less disturbed about the deflection of satellite countries to such a third, neutral "world," than about seeing them join the "Western world," which they consider their mortal foe. To the U.S. on the other hand, creation of such a third bloc would conceivably mean a distinct lessening of the tremendous burden which it is now carrying in its effort to contain an expansionist communist Russia.

Around The World

(*Continued from page* 429)

surface at least, there is a good deal of apparent economic improvement but actual progress is slow. Production continues at a low level, foreign trade is stagnating, and while wholesale prices have been declining, retail prices have failed to come down.

Tightening of credit means increasing State power over industry, somewhat of a paradox in view of the Government's strenuous opposition to the Left. Yet it is a realistic reflection of the weakened state of private enterprise attempting to recover under enormously trying conditions. Marshall Plan aid and possible to pull the country through the additional credits are relied upon winter.

For Profit And Income

(*Continued from page* 421)

any stock group was in farm equipments; the largest net decline was in motion picture stocks. What about 1948? That is more than a $64 question, for predicting the patterns of market selectivity any great distance ahead is virtually impossible. The greatest temptation, to be guarded against, is to expect too much of groups already most popular and therefore advanced in price; and to be most bearish on the year's outlook for groups already among the more depressed.

Acting Well

We could cite a number of stocks meeting good support in the recent unimpressive market, but prefer to omit such mention for this issue. No stocks can be regarded as immune in the event of a considerable general decline. The latter may not be certain. It is still possible that the market will straighten out and have some further seasonal rally this month —but the action of the first week of January makes this column more than a little skeptical of the outlook.

Answers To Inquiries

(*Continued from page* 422)

was expended during the year on additional facilities and it is estimated that further expenditures of about $850,000 will be made to complete the building now in process of construction and to provide the machinery and equipment needed for the expansion program. The funds needed for this purpose and for the expanded volume of business were obtained from the sale of 20,000 shares of 4% $100 par preferred stock and from bank loans. The company's British subsidiary, Cherry-Burrell Ltd. of London, England, continues to expand its operations even though under most adverse and troublesome economic conditions prevailing abroad. In spite of a shut down of most industries in England last Winter during the fuel crisis, Cherry-Burrell Ltd. completed last March the largest year's sales volume in its history. Dividend payments during 1947

totalled $1.20 a share. The stock is listed on the N. Y. Curb Exchange.

Dayton Rubber Company

Please advise products manufactured by Dayton Rubber Co. and recent sales and earnings.

D. P. Columbus, Ohio

Preliminary results of Dayton Rubber Company's operations for the fiscal year ended October 31, 1947, subject to audit, were approximately net sales of $34,000,000 and net profit of $1,800,000, equal after dividends on the class A stock, to about $3.80 per share on the 453,341 outstanding shares of common stock. Net sales for the previous fiscal year were $32,624,567 and net profit $2,101,524, which after class A dividends, were equal to $4.43 per share on the outstanding common stock.

Company manufacturers and sells specialized mechanical rubber goods and pneumatic tires and tubes for passenger automobiles and trucks. About half of the business is derived from non-tire rubber products. Dividend payments in 1947 totalled $1.20 a share. While near-term prospects appear favorable, the stock is subject to wide price swings reflecting the speculative nature of the business.

Preview of 1948 Economic And Business Trends

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tail field which at worst might entail no more than increasing spottiness in the overall picture, so long as aggregate business activity continues high. This explains the official reluctance to apply more stringent credit measures at this time. In an election year, no one wants to bring about deflation deliberately, since once under way, deflation is difficult to control.

For the present, then, the danger of deflation is not an immediate one. Similarly, the other signs of potential weaknesses cited, which together could ultimately bring about a marked reaction in business, so far have not been sufficiently widespread or serious to offset the upsurge of inflationary pressures. The more immediate outlook points to undiminished strength. The balance sheet of factors at work is heavily pointing in this direction, barring upsets not now foreseeable.

In the corporate field, this should mean continuance of a high volume of sales and good earnings though the latter may not fully match last year's in view of the absence of extraordinary factors, such as inventory windfalls, that lifted 1947 profits to extraordinary heights in many instances.

The longer run outlook appears less clear-cut however. A price show-down is not at all unlikely after mid-year when on basis of the new crops, the future of farm prices will be more clearly discernible. Similarly, with new plants and equipment coming constantly into operation, an approach to supply-demand balance may be witnessed in certain fields and with it an increasing trend towards price readjustment. Both could have considerable impact on the overall structure, but neither the timing nor the extent can be predicted today.

Any readjustment would be, essentially, salutary, for existing factors of strength are such that it need not mean a prolonged setback. But it could pave the way for continuation of postwar prosperity on a more healthy basis.

Opportunities For Income And Price Appreciation In Bonds And Preferred Stocks

(*Continued from page* 419)

1947-48 low has been 49. This concern is a holding company, deriving about 66% of its gross revenues from the Duquesne Light Company that supplies electric service to Pittsburgh, Pa. Gas subsidiaries provide almost all the other revenues of the parent concern. The SEC is attempting to force a divestment by Philadelphia Company of its electric properties and the matter probably will have to be decided by the Supreme Court. The outcome of this controversy, however, should not threaten the status of the company's senior securities. As of December 31, 1946, the consolidated funded debt of Philadelphia Company aggregated $123.5 million. The $3 preferred stock under discussion has first preference as to assets, and subject to a nominal amount of outstanding 5% preferred, has first preference to cumulative dividends as well. Net earnings applicable for the $3 senior issue have been remarkably stable for many years past, averaging more than four times the required amount for nearly two decades past. Only twice in the last 16 years have net earnings fallen below $12 per share on this issue and then only slightly so. As these shares enjoy a substantial investment rating, their current yield imparts more than ordinary appeal.

UNITED STATES STEEL CORPORATION 7% cumulative, non-callable preferred stock, that sold at a peak of 150 in 1947 and 166 in 1946 is currently quoted around 136. This illustrates clearly the drop in yields that has occurred in recent months, for with a non-callable and top ranking stock of this caliber, the price depends almost entirely upon the income obtainable. At 150, the yield was 4.65% and at 136 it is now 5.15%, up exactly ½%. Since the total funded debt of Big Steel amounts to only $87.5 million, the approximate 3.6 million shares of preferred outstanding constitute one of the soundest industrial stocks obtainable. The dividends have been paid without interruption since 1901, regardless of variable earnings. Net profits available for preferred dividends aggregated about $105 per share for the five year 1942-46 period alone or an average of about $21 per share annually, and rose to $27.01 for the 9 months ended September 30, 1947. For investors desiring a stable yield around 5%, U.S. Steel preferred deserves serious consideration, although dependent upon the future course of the market, a slightly more favorable buying opportunity might unfold.

CUDAHY PACKING COMPANY $4.50 cumulative preferred stock represents another sound issue presently available at an attractive yield. In contrast to last year's top price of 106 and a yield of 4.25%, a recent price of 82 brings this latter factor up to 5.5%. Since this old established packer, one of the big four, ended its November 1, 1947 fiscal year with the largest sales and profits in its long history and is in an exceptionally strong financial position, confidence in its senior stock is enhanced. Net income of $7.1 million covered both interest charges on its funded debt and preferred dividends 12.1 times over last year, after full allowance for taxes. Net available for the preferred dividends alone was 7.11 times re-

quirements. Excepting 1937 and 1938, when small deficits were incurred, Cudahy has succeeded in covering all of its senior charges in every year since 1928, at least. The company carries $5 million of inventory reserves, enjoys peak working capital of $40.4 million and has a current ratio of 2.5. For safety and a satisfactory yield this preferred stock carries considerable appeal.

As I See It!

(*Continued from page* 385)

self-sacrificing men who, remaining true to their purpose, came through victorious in the end.

The American people have no use for fumbling, bewildered and inactive politicians — their rewards go to initiative and courageous action. 1948 will be a year of decision, calling for the charting of a momentous course that will avoid the pitfalls of totalitarianism and bring us safely through to a free world both economically and socially.

In this critical situation we do not want to be obliged to have to decide between two inadequate candidates. We want to see topnotch leaders nominated who can inspire us on the tortuous road ahead.

Projecting Early 1948 Market Trends

(*Continued from page* 388)

raising prices of the latter issues to a point at which the normal spread would be restored.

However, Federal monetary-credit policy is bearish, not bullish. There is room for debate only on how bearish it is. You can say it is not dynamically bearish, but it has induced definitely increasing caution in bank policy on loans. This will make it harder for business to borrow, yet the third round of wage increases will further swell credit needs. At the same time, they will be harder than heretofore to pass along in consumer prices, and most certainly will impinge to some extent on business profits.

The chances are that the bear-market lows of last May will be tested out at some time in 1948. They might or might not be decisively broken; there is no way of foreseeing at this distance. Whether this test will come within the first half year or the second half is not a decisive investment consideration unless there is reasonable prospect of a substantial market rise in the meanwhile. For the reasons cited heretofore, the chances for the latter do not look favorable as they currently shape up. Obviously, they are much less than assured. We continue to recommend maintenance of about 50% reserves in cash, or equivalent, in typical accounts. If you are not in that position, get into it in any nearby periods of market strength, or firmness, unless there are controlling individual reasons for holding a more heavily invested position in common stocks for income return. In the latter case, the capital risk involved should not be lightly ignored and should be minimized by selective upgrading of the equities held.

—Monday, January 12.

BOOK REVIEWS

CHINA'S DESTINY

By Chiang Kai-Shek
Macmillan $2.75

This is the first authorized English translation of a famous book, originally published in China in 1943. It was written to mark the abolition of unequal treaties and the signing of new treaties of equality between China and her wartimes allies, the United States and Great Britain.

CHINA'S DESTINY is a history of the Chinese nation as seen through the eyes of her great leader, an assessment of China's national heritage, her past suffering at the hands of Imperialism, her present problems, and her future needs. Chiang Kai-shek, speaking to his own people, expounds his philosophy of national revolution and reconstruction, proposes a ten-year plan for industrial and social development, and reviews the Kuomintang's record in China's unification and progress. He stresses China's responsibilities, growing out of her great heritage and her new status as an independent nation.

The translation was prepared by Dr. Wang Chung-hui, former Judge on the Permanent Court of International Justice at the Hague. It is based on the revised edition issued in 1944, with an Appendix giving the original text in each case where revisions were made.

BOOK REVIEWS

FORCED LABOR IN SOVIET RUSSIA

By David J. Dallin and Boris I. Nicolaevsky

One of the most important elements in the life of Soviet Russia and one about which least is known by the outside world is the forced labor of millions of people. Workers, peasants, intellectuals, party officials, even members of the Secret Police have been taken from their various occupations and homes and transported to the bleak wastes of the north, to forests, to mines, to construction projects of all kinds, and sometimes with the aid of machinery but more often with their bare hands they have dug the foundations of the Soviet economy and have kept it going. They have died by the thousands of malnutrition and exhaustion, punishment and disease, but the supply is endless. This book includes in its full account of the forced labor camps past and present the first-hand stories of former inmates, men and women who have worked in the vast frozen mines opened above the Arctic Circle, who built railroads, highways, and canals through the tundra, and who have "ploughed the steppes" or been "rented" to the builders of factories; and it tells how this section of the great experiment looking toward a free humanity came about and how it grew into the essential structure of Soviet society. The book is the record, made with great care out of hundreds of documents and eye-witness accounts, of the return in the twentieth century to slave labor as an institution of government without any of the safeguards that in the past tended to moderate the lot of the slave. These labor camps began with humanitarian aims. They were to replace the prisons of tsarist times by providing work as the means of rehabilitating people who had been unduly corrupted by capitalism. They soon became however a means for dealing with anybody who had been arrested by the Secret Police, and they now harbor returning Russian prisoners of war sentenced on the grounds that they had no business being captured. There are millions of these people, and to understand what they are doing and how they fit into the economy is to take a long view into the springs of the Soviet state.

DAVID J. DALLIN was born in Rogachev, Russia in 1889. While a student at the University of St. Petersburg he was arrested for participation in an underground organization and was in prison for two years. Then he escaped to Germany where he lived from 1911 to 1917. Ten days after the Revolution in March, 1917, he returnd to Russia and was elected a member of the Moscow Soviet and served in it as an opposition deputy from 1918 to 1921. On the verge of arrest in 1922 he again went to Germany. St. Petersburg, Moscow, Berlin, Warsaw, Paris, Stockholm, London, Copenhagen, and New York have all been his home. In 1940, with his wife and son, he came to live in New York. BORIS I. NICOLAEVSKY is the author of *Azeff, the Spy* and *Karl Marx, Man and Fighter.*

Yale University Press $3.75

THE GAY GENIUS

By Lin Yutang

The vein in which Lin Yutang wrote his famous first book *My ountry and My People* is that in which he now enters for the first time the pleasant field of biography. Choosing for his subject a man who is not only one of his own favorite characters, but also one of the great figures of Chinese history, he has written what we believe to be the first Chinese biography to rank in scope and style with the works of such western biographers as Strachey. There have been books about the lives of modern political leaders, notably Sun Yat-sen and Chiang Kai-shek, and there have been partly imaginative accounts of the ancients Confucius and Laotse. But here is a well-documented full-length portrait of a man of fascinating variety. To find his like in the West one would have to look at Leonardo da Vinci or Benjamin Franklin.

Su Tungpo was poet and master of prose, friend of the people and great humanitarian, original painter and famous calligraphist, connoisseur of wines, hater of puritanism, a yogi, a Buddhist believer and a Confucian statesman, a humane magistrate, an engineer and—by no means completing the list of his attainments—Lin Yutang adds "a prowler in the moonlight, and a wag."

Only less extraordinary than the man himself is the extent of the exact information about him. He lived long before the discovery of America, three hundred years before haucer, half a millenium before Shakespeare, about whom so little is known and so much disputed. Yet when the records of England were scanty and vague, those of China were vast. Nothing in this biography, not even the conversations, lacks documentation—which, however, is not fired at the reader in footnotes. In his extended appendices Lin Yutang lists 124 major sources, which include many volumes of Su Tungpo's own voluminous writings and "the tremendous gossip about him as the most loved and admired scholar of his times, which has come down to this day in the form of journals and memoirs by his contemporaries. For a century after his death, there was not an important book of memoirs which did not have something to say about the poet. The Sung scholars were great keepers of diaries."

The John Day Company $3.75